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**THE EFFECTS OF UNIVERSITY STAFF'S PERCEPTIONS OF  
CORPORATE SOCIAL RESPONSIBILITY IN THE LIFE  
ASSURANCE INDUSTRY ON THEIR PROPENSITY TO  
PURCHASE LIFE ASSURANCE PRODUCTS**

**by**

**PATMOND THOKOZANI MBHELE**

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## **ABSTRACT**

Whether the clients were in pretty good health or very good health, the clients would generally pay the same price. But now insurers are looking more closely at the healthiest customers, understanding that someone who is not overweight, and who has low cholesterol and no family history of major medical conditions is a better risk than the average person.

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## **CHAPTER 1: Introduction to the research**

### **1.1. Problem statement**

Despite this increasing emphasis on Corporate Social Responsibility in the marketplace, little is known about the effects of Corporate social responsibility initiatives on consumers. A growing number of marketplace polls attest to the positive effects of corporate social responsibility (CSR) on consumer behaviour towards Life assurance industry (Davids, 1990). However, it is not known when, how and for whom specific corporate social responsibility initiatives work. The studies highlight the mediating role of consumers' perceptions of congruence between their own characters and that of the company in their reactions to its corporate social responsibility initiatives (Brown and Dacin, 1997). The extant belief on corporate social responsibility can, under certain conditions, decrease consumers' intentions to buy a company's products (Sankar Sen and Bhattacharya, 2001: 226).

Brown and Dacin (1997) focuses most directly and explicitly on the effect of a company's corporate social responsibility record on consumers' evaluations of that company and its products. Brown and Dacin (1997) argue that a company's corporate social responsibility record, instead of providing information about the attributes or overall quality of its life assurance products, creates a general context for consumers' evaluation. They further show that corporate social responsibility's effect on consumers' preference for a new product occurs through consumers' overall evaluation of the company itself. Although this aggregate positive relationship between a company's CSR record and consumers' willingness to support the life assurance companies represents an important beginning in the understanding of CSR, it masks potentially important company and consumer specific differences on propensity to purchase life assurance products.

## 1.2. General purpose of the study

It would therefore be imperative to study the potential of corporate social responsibility to other key factors. The scope of this study focuses only on influence of corporate social responsibility on consumers' purchase behaviour towards life assurance products and propensity to lure people in the life assurance industry.

### **Research questions:**

Firstly, assess the university staff perceptions and general experience about life assurance products and company.

Secondly, people's perceptions towards companies that do or do not behave in a socially responsible manner whether there is a bearing on actual buying decision.

Thirdly, exploring the propensity on Life Assurance Act whether the provisions in the Act have protective mechanisms for clients.

Fourthly, looking at the potential of Corporate Social Responsibility (CSR) initiatives and ethical reputation whether they can under certain conditions, decrease consumers' intentions to buy the company's products.

## 1.3. The significance of the study

It is hoped the results obtained from the study will provide a greater understanding of corporate social responsibility initiatives. By understanding the potential of corporate social responsibility actions, we can expect consumers to be actively supportive to most CSR actions. We might presume the effect of a company's CSR initiatives on consumers' evaluations of its products will be moderated by the consumers' CSR support. While the effect of CSR on the product evaluations of low CSR support consumers will parallel its effect on their company evaluations.

It is important for the study to provide understanding whether the life assurance companies carry the responsibility of managing and protecting the savings for rich, poor and every men and women.

It is also fascinating to find out on newly suggested short and long-term ombudsman that is eagerly awaited for promulgation in future whether the ombudsman can provide protective mechanism to clients. The findings of this study could be the basis for further studies in this area.

#### **1.4. Background information**

Corporate social responsibility is referred to as the managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organizations (Davis and Blomstrom, 1975:6). It is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified through relation and corporate governance (Johnson and Scholes, 2002:220). Corporate social responsibility includes considerations as to how the conflicting demands of different stakeholders can be reconciled. Stakeholder can be defined as any person or party that can affect or be affected by the activities and policies of an organization. Stakeholders are categorized as narrow stakeholders (i.e. include those that are most affected by the organization's policies, for example shareholders, management, employees, suppliers and customers). The wide shareholders (include those that are less affected, for example, government, less-dependent customers and wider community) (Bounds, Dobbins and Fowler, 1995). Managers are usually in a powerful position within organizations to influence the expectations of other stakeholders. They have access to information and channels of influence, which are not available to many other stakeholders. With this power comes an ethical responsibility to behave with integrity.

Although CSR is inextricably linked to corporate ethics, it is a more inclusive conceptualization of companies' responsibility to society at large that encompasses their more specific ethical responsibilities to abide by a set of moral principles or values in conducting business (Carrol, 1991).

The ethical behaviour by individuals or groups within a corporation is socially responsible, but corporate social responsibility extends beyond good business ethics in representing that corporation's moral obligation to maximize its positive impact and minimize its negative impact on society (Pride and Ferrell, 1997).

A comprehensive summary of the different corporate social responsibility actions in contained Socrates' database and reduced into six broad domains: (Kinder, Lydenberg, Domini and Co. Inc., 1999).

1. Community support (For example, support of arts and health programs, education and housing initiatives for the economically disadvantaged, generous / innovative giving).
2. Diversity (For example, sex, race, family, and disability-based diversity record and initiatives).
3. Environment (For example, environmental friendly products, hazardous waste management, use of ozone depleting chemicals, animal testing, pollution control and recycling)
4. Employee support (For example, concern for safety, job security, profit sharing, union relations and employee involvement)
5. Operations (For example, overseas labour practices and operations in countries with human rights violations)
6. Product (For example, product safety, research and development / innovation and marketing / contracting controversies)

Source: Sankar Sen and Bhattacharya, *Journal of Marketing research*, Vol XXXVIII (May 2001) 225 – 243.

The study will attempt to explore the relationships between a company's corporate social responsibility actions and consumers' evaluations of both the company and its specific product offerings.

## **CHAPTER 2: Nature of Life Assurance industry**

### **2.1. Introduction to life assurance industry**

Insurance companies are in the business of assuming risk on behalf of their customers in exchange for a fee, called a premium (Mishkin and Eakins, 2000). Insurance companies make a profit by charging premiums that are sufficient to pay the expected claims on the company plus a profit. There is an argument that people pay for insurance when they know that over the lifetime of their policy, they will probably pay more in premiums than the expected amount of any loss they will suffer. Mishkin and Eakins (2000:547) suggest that most people are risk averse: They would rather pay a certainty equivalent (the insurance premium) than accept the gamble that they will lose their house or their car. Thus it is because people are risk-averse that they prefer to buy insurance and know with certainty what their wealth will be (their current wealth minus the insurance premium) than to incur the risk and run the chance that their wealth may fall. In terms of Fourie, Falkena and Kok (1999: 119) further elucidate on the philosophy behind all insurance that it is the sharing of risks by many to safeguard one against unexpected misfortunes such as fire, accident, death, disability or living too long. Life offices generally provide benefits to individuals, although some policies may be company owned. Life offices are either proprietary companies (that is, with shareholders and policyholders) or mutual societies, which are owned entirely by policyholders. In South Africa the two largest life offices are presently still mutual societies, although both have indicated that they will be converting to proprietary companies in the near future. In the case of life insurers there is a tendency in this country for power to be concentrated in the hands of a few large offices. The two largest, Old Mutual and Sanlam, receive approximately two-thirds of the total premium income of all long-term insurers, and the top ten companies about 96%, (Fourie, Falkena and Kok, 1999:119).



Life insurance policies represent contractual savings and are one of the four main ways in which savers accumulate capital over the longer term (the three others being unit trusts, pensions, and home mortgages). Although most life policies have surrender values after they have been in force for a number of years (that is, the policy can be traded in for cash), the initial costs are relatively high and surrender values in the early years may be lower than premiums paid (Fourie, Falken and Kok, 1999).

One of the principles upon which life insurance is based is to keep payment (premiums) and benefits as equitable as possible within and between successive generations of policyholders. Although premium rates have an in-built margin of safety, they should, for competitive reasons if no other, be a reasonable reflection of the prevailing circumstances. For example, for a life office's premiums to be competitive and adequate, it always has to promote greater efficiency to keep overhead expenditure at the lowest possible level.

## **2.2. Background history of short and long-term insurance**

### **2.2.1. Short-term Insurance**

Insurance was the Code of King Hammurabi of Babylon (1700 BC) that is usually regarded as the basis for modern insurance practice. The insurance system developed steadily as world trade expanded and civilization grew. For instance, it was the Great Fire of London in 1666 that focused attention on the dangers of fire. This saw the opening of the first "fire office" by Dr Nicholas Barbon. This idea caught on and more and more fire offices were opened. The various companies would affix "fire marks" to the front of buildings and would only go to the scene of a fire if it was one of "their" buildings. Often a fire engine would rush to the scene of the fire only to find it was not one of "their" buildings and drive off. This hit-or-miss method of fire-fighting came to an end when the various companies merged and formed the Metropolitan Fire Brigade of London in 1833 (*Source: Falkena, Kok & van der Merve, 1992:65*).

Short-term insurance in South Africa began in 1825 with the opening of an office in Cape Town of the Alliance British and Foreign Life and Fire Assurance Company. The 1830s brought other companies to the market and soon there were number on companies at least four operating. It has to be appreciated that it was a very small market. By 1857 there were at least ten companies offering fire insurance in the Cape and even in those days it was clear that competition was fierce. Earlier in this century the big British companies opened South African offices and still play a major role today. In 1918 Santam Limited opened its doors for business. It is believed to have been the first company to be registered in Afrikaans. *Source:* (Falkena, Kok and van der Merve, 1992).

### 2.2.2. Long-term Insurance

Insurance is based on the principle of risk-sharing. Chinese merchants shared out one another's cargoes among all their boats. Thus if one boat sank, each merchant lost only a small portion of his own shipment, and not his entire cargo. In 17<sup>th</sup> century, the first insurance contracts involving monetary amounts came into being in places such a Amsterdam and London. These were marine insurance contracts, where ships were insured against loss at sea. Each person who was willing to accept a portion of the risk signed his name directly below these details, together with his share of the risk. These people (risk bearers) were therefore known as "underwriters". This idea of risk-sharing was later applied to people. Under the first type of life insurance policy a cash sum was paid if the person died within one year. The cost of this one-year insurance depended mainly on the person's age, and was known as the 'premium'. The next innovation was, therefore, to charge level annual premiums instead of increasing premiums. This was a direct result of using death statistics of people to estimate the total expected cost beforehand.

Life insurance in South Africa owes its origins partly to the coming to this country of the 1820 Settlers.

In 1826 two British offices – United Empire and Continental Life, and the Alliance British Foreign Fire and Life Companies – were established in the Cape colony. Five years later the first local company to be established in South Africa, known as South African Life, came into being. Other local companies followed, many of them to be absorbed by British offices already established or being established. The South African Mutual Life Assurance Society (Old Mutual) was founded in 1845, and this is the jointly local life insurance society established in that period still in existence today. By 1967 there were 60 life insurance companies transacting life business in South Africa, 36 of them local companies, (Kok, 1992:77). Both short and long-term insurance types should follow the fundamental principles of insurance (Mishkin & Eakins, 2000:548):

- There must be a relationship between the insured (the party covered by insurance) and the beneficiary (the party who receives the payment should a loss occur). The beneficiary must be someone who may suffer potential harm. The reason for this is that insurance companies do not want people to buy policies as a way of gambling.
- The insured must provide full and accurate information to the insurance company.
- The insured is not to profit as a result of insurance coverage.
- If a third party compensates the insured for the loss, the insurance company's obligation is reduced by the amount of the compensation.
- The insurance company must have a large number of insureds so that the risk can be disseminated out among many different policies.
- The loss must be quantifiable
- The insurance company must be able to compute the probability of the loss's occurring.

The purpose of these principles is to maintain the integrity of the insurance process. Without them, people maybe tempted to use insurance companies to gamble or speculate on future events. The behaviour can also undermine the ability of insurance companies to protect persons in real need.

These principles provide a way to spread the risk among many policies and to establish a price for each policy that will provide an expectation of a profitable return.

### 2.3. Different types of insurance

Assurance or insurance, is essentially protection against the financial risks the people face throughout their life, particularly when other people depend on them for food and shelter. The main risks revolve around the following:

- Death
- Becoming disabled and being unable to earn a living
- Living longer than they have provided for in their retirement savings
- Loss of good health and ,
- Loss of, or damage to, the things they own.

Insurance is divided into *two* categories:

1. Short-term insurance, which deals with loss or damage to what they own.
2. Long-term assurance (life assurance), which deals with risks to their life (Cameron, 2003:11).

#### 2.3.1. Short-term Insurance

Short-term insurance is the same as that of life Assurance, namely the sharing of risks and the pooling of resources. In the case of short-term insurance eventualities are addressed. According to Kok (1992:62), it is conceivable that someone can go through his entire life and never make a claim on his short-term insurance company. It is the buying of protection against the possibility of material and / or financial loss. The aim of short-term insurance is to ensure that in the event of damage or loss the insured is not worse off financially following such loss than prior to it.

It operates on the basis of many people pooling their premiums to provide for the losses of the few. The role of the insurance company is purely the management of this pool of premiums.

Short-term insurance is normally taken out for short periods – for a day or a week to cover something specific, but mostly for a period of one year after which it could be renewed.

Short-term insurance may be classified into *two major* groups:

(a) Personal lines insurance

It deals with the assets of a person and the protection of those assets.

Householders

The policy embraces household contents including furniture, clothing, and electrical appliances.

All risks

This policy covers those items that are regularly taken out of the home and are subject to greater risks – for example, jewellery, briefcases, golf clubs, cameras, binoculars, furs, etc.

Motor vehicles

This includes motor cars, light delivery vans, motor cycles, caravans and trailers.

*Note:* The following additional items are depended more on the requirements of the individuals concerned:

Houseowners

The building itself, including items of a fixed nature such as built-in cupboards and fixed carpeting.

Yachts, motor boats and other small craft

Any boat over a certain length or carrying an engine above a certain capacity would normally be excluded from a personal line policy.

Electrical and mechanical breakdown of TV's, videos and decoders

To flesh out the insurance policy in order to provide the maximum cover for the insured, many personal line composite policies will also offer:

- Personal legal liability
- Personal accident
- Legal aid

#### (b) Business Insurance

Business or Corporate insurance covers most of the above eventualities as they relate to business activities, but the amounts involved are normally substantially larger than in the case of private persons because:

- Contents insurance: could cover office furniture or factory equipment.
- Motor vehicles: could include fleets for vehicles and not be restricted to only one or two cars, as well as include heavy-duty trucks.
- Property insurance: could include large industrial buildings, city office blocks and shopping centres.

Note: Other areas of business insurance:

- Marine insurance
- Aviation insurance
- Other areas of business insurance, it includes cover for liability of an industrialist against the death or disablement of employees on the job, through losses arising from staff negligence or fraud, to insurance against loss of profits.

#### 2.3.2. Long-term Insurance

Long-term insurance is dominated by life assurance. Life insurance companies (or life offices) are either proprietary companies (i.e. with shareholders as well as policyholders) or mutuals, which are owned entirely by policyholders.

In South Africa the two largest life offices are mutual. The two largest, Old Mutual and Sanlam, received two thirds of the total premium income of all long-term insurers, and the top seven companies about 90% (Kok, 1992:70).

One of the principles upon which life insurance is based is to keep payment (premiums) and benefits as equitable as possible within and between successive generations of policyholders. Premium rates, in relation to the sum insured, are calculated actuarially to allow for factors such as: the risk of death, age and health, the duration of the policy; and the investment return.

Long-term policies are issued under a variety of titles that attempt to describe their function. **The types for insurance:**

(a) Term insurance (or temporary)

It is risk life assurance where the cover for death and / or disability is for a specified period (Cameron, 2003:13). It is a cost-efficient way of providing for dependants on the death of the breadwinner. For example, if you die or become disabled during the term, the life assurance companies pay out – provided you have maintained your premiums. If the term expires without a claim, you lose the money you have paid in, but you have had the peace of mind that your needs would have been covered if the unexpected happened during the assured period. According to Fourie, Falkena & Kok (1999:121), these policies are designed to provide protection against the financial consequences of death within a given period only. They provide high life insurance cover for relatively low premiums and are suitable for specific needs or circumstances. For example, to provide protection where money is outstanding on the mortgage bond of a family home. In terms of Lankford, Razzi and Solheim (2003:76), Term insurance is the best choice for most people, and unless a person thinks that he/she may want to switch to a cash-value policy in the future, most term policies are basically the same.

Premiums for cash-value policies tend to be a lot higher than for term insurance, but the client can keep the policy forever and some of his / her money goes into an investment account. Insurers have also revised the way they assess risk. In the past, most term insurance companies had three rate classes (Kok, 1992:70):

- Preferred
- Standard
- Smoker

Whether the clients were in pretty good health or very good health, the clients would generally pay the same price. But now insurers are looking more closely at the healthiest customers, understanding that someone who is not overweight, and who has low cholesterol and no family history of major medical conditions is a better risk than the average person.

#### (b) Whole-life insurance

Whole-life assurance covers against death and/or disability until the day a person dies – as long as a person continues to pay the agreed premium (Cameron, 2003:13). The premiums are based on how long the life assurance company expects a person to live. The main issue with whole of life policies is how premiums are structured. Cameron (2003:13) describes two policies under the whole-life assurance:

- Robust policies: premiums may be guaranteed for a certain period, normally up to 25 years.
- Fragile policies: may face premium increases on an ongoing basis, depending on what is called actuarial experience. Actuarial experience is the actual number of claims than expected, say as a result of Aids deaths, your premiums may be increased.

As long as a person keeps paying the premiums, a life company cannot change the nature of the contract or cancel the contract, say, because a person becomes ill and is expected to die sooner than is usually (Cameron, 2003:13).



However, a number of variations on the premium payment term, for premiums can be arranged to cease at a defined age or be payable for a given term, with the cover remaining in force even when no further premiums are being paid.

#### (c) Endowment insurance

The policy combines savings plans with the provision of protection against the financial consequences of death.

- According to Universal life policies the benefit is the payment of the greater of the sum insured or the investment account on the death of the life insured during the term of the policy or the investment account on survival to the maturity date.
- According to Conventional policies the sum insured (plus applicable bonuses) is paid out. Premiums are normally paid throughout the term of the policy.

In terms of Fourie, Falkena & Kok (1999:122) endowment policies tend to be the most popular type of policy, because the insuring public likes to combine the elements of saving and protection. They are also a way of meeting a variety of different needs, from providing extra money on retirement, to ensuring that an adequate sum is available at a particular time to help meet the cost of educating children on the death of a breadwinner.

#### (d) Investment policies

It is divided into two:

- Pure endowment

Pure endowments are similar to endowment insurance, but have no life cover.

The benefit of death is merely the balance in the investment account. It is a means of providing an investment service with some tax advantages to those who do not need life cover or, owing to health impairments, are unable to obtain life cover.

- Retirement annuities

Retirement annuities are designed specifically to provide retirement benefits for self-employed people and those wishing to supplement their benefits received from pension funds. The tax savings have made both pure endowments and retirement annuities a reliable and tax-efficient way of investing.

- Fund policies

The provision is made for policies whereby pension, provident and benefit funds, and medical schemes, may invest with an insurer in order to secure the amounts necessary, over time, to meet their obligations to members in terms of their rules. Life companies seldom actually underwrite the obligations of such funds – and in any event the need for this has declined with the move away from defined benefit funds towards defined contribution funds. This kind of policy is now a major part of the business of life insurers.

(e) Health insurance

Essentially these policies (which are treated as life policies by special exception) provide cover in respect of medical and disability needs (Fourie, Falkena & Kok, 1999:123).

Medical cover can be grouped into four broad areas:

- Hospital benefits providing cash to offset the costs of an extended stay in hospital
- Medical benefits providing a cash lump sum to offset costs incurred in undergoing a surgical procedure.
- Dread-disease benefits providing for the early payment of the life insurance benefits in the form of a cash lump sum. Typical events covered are cancer, heart attack, stroke, coronary surgery, kidney failure, paraplegia and major organ transplants.

- Nursing benefits provide for the early payment of life insurance benefits in the form of a monthly income to offset the costs of private nursing in the event of incapacity or frailty.

Disability cover can be grouped into the following areas:

- Income replacer providing monthly income in the event of permanent or temporary disability.
- Capital disability benefit providing a lump sum in the event of disablement
- Business overhead benefit providing a monthly income to cover business overheads in the event of disablement.

#### (f) Sinking fund policies

These were originally intended to provide for the redemption of a loan or to meet some other obligation (For example, replacement of an asset) after a certain term. They do not require, or depend upon, there being a "life assured" and are available to corporate bodies. That aside, these policies operate in the same way as pure endowments, with the benefit being the balance of the investment account at the end of the agreed term of years.

### 2.3.3. The first options within Whole of life and Term assurance.

- Fixed-level benefits.

Cameron (2003:13) considers this as the simplest form of risk assurance. Customers buy a fixed amount of assurance, which is paid out when they die. The amount assured remains the same (it is level, hence the name) throughout the life of the policy. The premium, however, is not level. It may change if it is not guaranteed for the period. This option is available for whole of life and term assurance.

- Increasing benefits

With this kind of cover, the amount by which clients are assured goes up by a predetermined amount each year and, in all likelihood, so will their premiums.

The main reasons are:

#### Inflation

The client can increase the amount assured every year to keep pace with inflation, but the premiums will also increase. Normally the premiums will increase by a higher percentage than the percentage increase in the amount assured. The reason for this is that the likelihood of client dying increases as he/she gets older, so you need to pay higher premiums relative to the amount assured. For example, the amount assured may go up by 10% in a year but the premiums may increase by 11%. Normally a client does not need to have any further medical examinations or fill in any new application forms to increase the benefits (Personal Finance, 2003:13).

#### Affordability

The client can use increasing benefits cover if a client does not have enough money at the moment to pay the premiums for the actual amount of assurance the client needs. According to Cameron (2003:13) the client steps up both the amount assured and the premiums as he/she earns more. Depending on the circumstances, the life assurer and the benefit amounts, the client normally does not need to have any further medical examinations or fill in any new application forms to increase the benefits. It should be noted that this option is available for whole of life and term assurance.

- Decreasing term

The amount by which the clients are assured decreases by a set amount each year. This assurance only applies to term assurance.

Unlike with increasing benefits, where the premiums normally increase as the amount assured goes up, with decreasing term the premium is more likely to stay level. Cameron (2003:13) further elaborates on life assurance the calculation in a level guaranteed premium for the period of the assurance.

The main reasons for using decreasing term include:

#### Debt

There is little point of having level term assurance, if the client has a large debt (e.g. home loan), which a client is reducing every month. For example, a home loan of R100 000 at the start of a 20 years period, the client does not need R100 000 insurance for the full 20 years. As debt decreases, so as he/she decreases the total amount of assurance required to cover debt.

#### Savings

The vital saving goals revolve around the education of children. When the child is borne, the customer would start by assuring for the full amount that will be required to pay for education. According to the Personal finance (2003:13) reporting, the education savings fund grows, the client can reduce the amount of life assurance.

- Renewable term

This option allows the client to renew a policy at end of a pre-selected term (Personal finance, (2003:13). This assurance only applies to term assurance. Its advantage is that at the cost of a small additional premium during the original term, the client can extend the life of the policy at the end of the original term, without again having to go through a medical examination. However, it should be noted that the client will pay higher premiums because the premiums will be based on the age when the client renews the policy, as well as on the assurer's actuarial experience.

### 2.3.4. The second options within structured life assurance

The following options are outlined on Personal Finance (2003:13):

- Joint life assurance

It aims at couples, who are married or live together. Joint life assurance comes with three options:

1. It will pay out when the first of the two die. The contract will then cease. The premiums for this assurance should be higher than assurance on a single person but lower than on two separate policies.
2. The policy will pay out on the last partner dying, or
3. The policy will pay out twice, when both partners die.

#### Advantages

- It can be cheaper than two separate policies
- It is ideal for covering estate duty
- It allows for a surviving spouse to re-plan
- It provides a calamity plan if, for example, both parents are killed concurrently, say in an accident.

#### Disadvantages

- It is complicated on divorce
- It is difficult to adjust if the financial plans change

- Premium waiver cover

It is an assurance that can be used for both investment and risk assurance. In most cases premium waiver is used to ensure that the premiums will continue to be paid if the client get disabled. It can also be used to ensure that premiums will continue to be paid on the death of the premium payer. It is important where the premium payer differs from the life assured.

*Source:* The Independent on Saturday, Personal Finance, 2003:13.

## 2.4. Modern Life Assurance

Long-term assurance comes in many different forms and over the years has taken on a completely new character. It is no longer only concerned with providing money to support the dependents if the policyholder dies unexpectedly. Life assurance is also the main custodian of the bulk of ordinary South Africans' savings. The modern life assurance categories (risk assurance and investment assurance) are different ways of ensuring the financial well-being of clients and their dependents, whether it is an investment in an endowment policy, unit trusts funds or property. The challenge is to get the balance right between the risk attached and the investment plans. The best way to start working out what risks the client faces is with a financial needs analysis, which deals with four things:

- It helps the customer clarify its financial objectives.
- It tells the customer what need to be done to meet those objectives
- It tells the customer what risks need to be covered by assurance.
- It tells the customer how much need to be invested.

Lankford (2003:76) stresses the Web site that can help the customers to assess their needs and find the best deal. Some people prefer to work in person with a broker, which generally costs the same as buying online. The best way though, is to ask a financial adviser to do the analysis, because he/she will also be able to help the client choosing the best plan, and guide the client through the wide range of products available.

### 2.4.1. Risk Assurance

It is bought to protect yourself and dependents against the financial consequences of losing the income as a result of death, ill-health or disability.

Risk assurance can be bought for a specified period (term assurance) or for whole life. The clients and life assurance companies take calculated bets with risk assurance. The following risks are outlined on Personal Finance (2003:11):

- When a client runs the risk of dying prematurely.

The client takes a bet that he/she will live or earn an income for a certain period, after which he/she will die or become disabled. If the client dies or becomes disabled before this period expires, the life assurance companies pay the client out. The client's stake in this bet is the premium he/she pays. The disadvantage on choosing a pre-selected period, say 10 years, and the policyholder survives, the life assurance company has won the bet and keeps all the money a client has paid in premiums. It is only taken for precaution within the pre-selected period to assist the dependents of the policyholder.

- When a client runs the risk of living too long.

The assumption revolves on anticipation of living a long time. The bet is associated with pension (annuity) with a lump sum. If the bet is won, the life company will keep paying the client a pension long after the capita would have run out. While the bet is lost and dead, the day after the client has bought the pension, the life assurance company keeps the money. It is sometimes possible to get guarantees that if the client dies before 10 years are up, the pension will be paid to the beneficiaries for 10 years.

Both types of assurance are calculated on the life assurers, who use mortality tables – calculations based on birth and death statistics. Life assurance companies do not only work on averages of the population as a whole, however, they also take into account the clients' personal circumstances, particularly their state of health, before they decide on how to structure their premiums. The assessment of what the client will pay in premiums is called "underwriting" and this is based on clients' health and lifestyle.

Group assurance does not take the individual circumstances into account.



It is mainly through an employer scheme attached to a retirement fund (the whole group is risk-rated). It should be noted that the group can be engaged in a dangerous activity, such as mining, everyone will pay comparatively more than say a group of librarians, who do not face unusual risks to health or on-the-job dangers.

#### 2.4.2. Investment Assurance

Investment assurance is one way of making investments and it has both advantages and disadvantages over other types of investments, such as unit trusts or bank savings accounts.

Endowment policies have many underlying *investment options*, which includes the following:

- Guarantees

The capital and some growth are guaranteed (Cameron, 2003:11).

- Market-related

The value of the investment directly reflects the value of the underlying investments. The underlying investments are in the share market and the market collapses, so will the value of investment (Cameron, 2003:11).

- Smoothed / stable

These policies link the performance of the investment to investment markets, but the performance is smoothed out during the life of the policy (Cameron, 2003:11).

- Specialist

These policies invest in specialist areas, as broad as the spread of foreign investments or as narrow as local hotels (Cameron, 2003:11). Life assurance companies can offer the clients products that invest in what are called "private equity funds".

These investments are called "unlisted", because they are not listed on any stock market, and an advantage over other collective investment schemes, such as unit trusts, which can only invest in listed investments.

Life assurance, both for risks and for investment, is sold in terms of the Long Term Assurance Act, which is designed to provide proper protection for clients. The industry is regulated by the Financial Service Board. The most important thing is have a proper financial plan that will ensure client's financial well-being and that of the dependents. Life assurance will always be a critical part in achieving financial objectives.

## 2.5. A Relationship between investment and risk.

All investments involve some degree of risk, but customers can minimize those risks by adhering to a sound financial plan, diversifying the assets and most importantly, staying invested for the long time. Ward (1993:310), suggests the key selling point for many financial services. Where there either eliminate risk in exchange for the payment of a fee (as in the case of the insurance industry), or there manage the risk on behalf of the customer (as in the case of investment management) also in exchange for the payment of a fee. The customer is buying the particular risk management expertise of the service supplier; in the insurance case by transferring the risk entirely to the insurance company and with investment management by getting professional skills involved in designing and monitoring an investment portfolio, tailored to the specific needs of the customers. Customers should make the most of life by having a financial plan, making better investment choices and seeking professional financial advice. The investment decisions involve long-term investments, which require considerable outlays that commit a firm to a course of action (Marx, de Swardt and Nortje, 1991:91). Financial planning has come about because modern life offers far greater choices and people live longer and healthier lives – and these lifestyle choices have to be funded, especially during retirement.

Clayton (2003:27) suggests that longevity force customers to make choices about:

- Whether to spend now or later
- How much money the client needs for retirement
- To reassess the capital expenses
- To rethink the desired retirement age
- To weigh up the importance of legacies to beneficiaries
- To assess the risks and returns of the investment portfolio

Life assurance needs to create a unique solution that takes into account the clients' lifestyle goals, investment strategy and planning strategies. Clayton (2003:27) further identifies four guidelines for investing better:

- Value: clients should make investments at the right price.
- Time: clients need to give the investments time to give clients the decent returns. Gitman:1998: p.45 looks at a risk-return tradeoff: investors must be compensated for accepting greater risk with the expectation of greater returns.
- Diversity: clients should diversify the investments in order to spread the risk of one investment not performing.
- Quality: clients should never compromise on the quality of the investments that client makes.

The key variables of investing are risk, time and return. While risk and time in the markets can be controlled, and clients cannot control the returns they get from the investments. Returns may be defined as the total gain or loss experienced on an asset over a given period of time. Returns can be calculated either a an annual return (that is, measuring return over a single period), or it can be determined for multiple periods by means of averaging (Marx, De Swardt and Nortje', 1999:46).

The primary question facing the financial advisers is whether the return will compensate investors adequately for the risks that are brought to bear on them.

Since most clients are risk-averse, they require a higher return for a given increase in risk (Gitman, 1991:161).

The risks involved in investing can be illustrated by examining the negative returns produced by the different asset classes over a long period of time. Risk arises from many different sources and, in practice, has a number of different meanings. For this reason Pinches (1992:127 – 129) groups the major sources of risk into four categories:

General economic risk (prospect of a recession), inflation and disinflation risk (pricing policies, financing costs & costs of labour), firm-specific and issue-specific risk (business risk i.e. technological stage & fixed and variable costs, Financial risk & issue-specific risk, i.e. securities) and International risk (monetary crises, oil prices and wars). There is a propensity to control the risk by exercising the following:

- The way the clients allocate their investments asset classes
- Diversifying into multiple asset classes across countries, industries and fund managers
- Rand cost averaging.

*Source:* Personal finance (June 21, 2003:27)

This is the principle of phasing money into investments over time, giving clients the benefit of buying into investments at different price levels and averaging their returns, rather than at a single level, which could be quite high.

## **CHAPTER 3: Insurance Management**

### **3.1. Managerial Life Assurance**

Insurance companies, like banks, are in the financial intermediation business of transforming one type of asset into another for the public (Howells and Bain, 2000). They use the premiums paid on policies to invest in assets such as bonds, stocks, mortgages, and other loans. The earnings from these assets are then used to pay out claims on the policies. If the insurance company's production process of asset transformation efficiently provides its customers with adequate insurance services at low cost and if it can earn high returns on its investments, it will make profits; if not, it will suffer losses. Financial intermediaries accordingly fulfil an important activity in the economy since they channel funds from those who might otherwise not have put their funds to productive use, to those who will use the funds effectively (Goosen, Pampallis, Van der Merve and Mdluli, 1999:93). The principle of insurance is that a certain percentage of income is paid out in the form of claims while the rest is invested in order to make a profit for the insurance company. However, rising claims in the short-term sector (that is, motor cars and household goods) are reducing the ability of the insurers to pay out claims, which has resulted in the dramatic increase of premiums for those wishing to insure their assets. Financial intermediaries like insurance companies are important in the economy. Therefore, it is vital to use adverse selection and moral hazard concepts to explain many management practices specific to the assurance industry. Howells and Bain (2000) define Asymmetric Information as a situation where one party to a financial transaction has better information than the other about factors relevant to the transaction.

## **There are two main problems:**

### **3.1.1. Moral hazard**

Moral hazard occurs when the insured fails to take proper precautions to avoid losses because losses are covered by insurance. In terms of Mishkin and Eakins (2000:560) moral hazard arises when the existence of insurance encourages the insured party to take risks that increase the likelihood of an insurance payoff. For example, a person covered by burglary insurance might not take as many precautions to prevent a burglary because the insurance company will reimburse most of the losses if a theft occurs. Howells and Bain (2000) define moral hazard as a situation where being insured encourages someone to behave more recklessly than they would have done without the insurance.

### **3.1.2. Adverse selection**

Adverse selection occurs when the individuals most likely to benefit from a transaction are the ones who most actively seek out the transaction and are thus most likely to be selected. Howells and Bain (2000) define adverse selection as a situation where those who pose the highest risks are the ones most likely to take out insurance.

Adverse selection holds that the people most likely to receive large insurance payoffs are the ones who will want to purchase insurance the most. For example, a person suffering from a terminal disease would want to take out the biggest life and medical insurance policies possible, thereby exposing the insurance company to potentially large losses. The implication of adverse selection is that loss probability statistics gathered for the entire population may not accurately reflect the loss potential for the persons who actually want to buy policies. The adverse selection problem raises the issue of which policies an insurance company should accept. These kinds of atrocities should be minimized.

## 3.2. The strategic approaches to minimize the problems

### 3.2.1. Risk Screening

Insurance companies try to screen out poor insurance risks from good ones. Effective information collection procedures are therefore an important principle of insurance management. The insurance company uses the information the clients provide to allocate them to a risk class. A statistical estimate of how likely the client has to have an insurance claim. Howells and Bain (2000) further emphasize the study of past statistics on client characteristics and outcomes. It may be possible to identify groups of clients as having different degrees of risk and then charging them risk-based premiums. Based on this information, the insurance company can decide whether to accept the client for the insurance or to turn the client down because the client poses too high a risk and thus would be an unprofitable customer for the insurance company.

### 3.2.2. Risk-Based premium

Charging insurance premiums on the basis of how much risk a policyholder poses for the insurance company is a time-honoured principle of insurance management. Adverse selection explains why this principle is so important to insurance company profitability. For example, male and female both university students with no accidents or speeding tickets, apply for auto insurance. Normally, male student will be charged a much higher premium than female student. Insurance companies do this because young males have a much higher accident rate than young females. If one company does not base its premiums on a risk classification but rather just charged a premium based on the average combined risk for males and females. Then the female student would be charged too much and male student too little. Therefore, on average the company would lose money on male student and the company would also lose out on profits.

### 3.2.3. Restrictive Provisions

It is the provision of insurance management tool to reduce moral hazard. Such provisions discourage policyholders from engaging in risky activities that make an insurance claim more likely. For example, Life insurance companies have provisions in their policies that eliminate death benefits if the insured person commits suicide. The restrictive provisions serve to reduce moral hazard by ruling out undesirable behaviour.

### 3.2.4. Prevention of Fraud.

Insurance companies also face moral hazard because an insured person has an incentive to lie to the company and seek a claim even if the claim is not valid. For example, a person who has not complied with the restrictive provisions of an insurance contract may still submit a claim. The important management principle for insurance companies is conducting investigations to prevent fraud so that only policyholders with valid claims receive compensation.

### 3.2.5. Cancellation of Insurance

Insurance companies can discourage moral hazard by threatening to cancel a policy when the insured person engages in activities that make a claim more likely. For example, if auto insurance company makes it clear that a driver with too many speeding tickets, coverage will be canceled.

### 3.2.6. Deductibles

The deductible is the fixed amount by which the insured loss is reduced when a claim is paid off. The policyholder experiences a loss along with the insurance company when the client makes a claim. A deductible thus makes a policyholder act more in line with what is profitable for the insurance company; moral hazard has been reduced. The insurance company can lower the premium by more than enough to compensate the policyholder for the existence of the deductible.



For example, a R250 deductible on an auto policy, means that if the client suffers a loss of R1000 because of an accident, the insurance company will pay the client only R750. The function of the deductible is to eliminate the administrative costs of small losses by forcing the insured to bear these losses (Mishkin and Eakins, 2000:562).

#### 3.2.7. Coinsurance

When a policyholder shares a percentage of the losses along with the insurance company, their arrangement is called Coinsurance. For example, some medical insurance plans provide coverage for 80% of medical bills, and the insured person pays 20% after a certain deductible has been met (Mishkin and Eakins, 2000). Therefore, the policyholder who suffers a loss along with the insurance company has less incentive to take actions, such as going to the doctor unnecessarily, that involve higher claims.

#### 3.2.8. Limits on the Amount of Insurance

There should be limits on the amount of insurance provided, even though a customer is willing to pay for more coverage. The higher the insurance coverage, the more the insured person can gain from risky activities that make an insurance payoff more likely and hence the greater the moral hazard. The insurance companies must always make sure that their coverage is not so high that moral hazard leads to large losses.

Therefore, the effective insurance management practices reduce moral hazard and adverse selection by making it harder for policyholders to benefit from engaging in activities that increase the amount and likelihood of claims. With smaller benefits available, the poor insurance risks see less benefit from the insurance and are thus less likely to seek it out. The asymmetric information has critical implications on policies where to cancel or surrender the policy before maturity date especial life assurance.

### 3.3. Implications of policy cancellation and surrendering.

One of the most critical issues in the life assurance industry is the many thousands of policies that are cancelled before they reach their maturity date. The policyholder incurs losses when the policy is cancelled, particularly a universal life or policy by allowing it to lapse or by surrendering it before it reaches maturity. Mishkin and Eakins (2000) define Universal life or policy as the combination of the benefits of the term policy with those of the whole life policy. The major benefit of the universal life policy is that the cash value accumulates at a much higher rate. It is structured to have two parts: one for the term life insurance and one for savings. The universal policies offer both risk assurance and an investment portion. The *basic reasons* why clients cancel life assurance policies:

(a) An inability to continue paying the premiums. It ranges from losing the job and not properly considering the suitability and affordability of the policy when taking it out.

(b) Acting on advice to cancel the policy to take out a better option.

The unscrupulous advisers are also contributing towards the fiasco in as far as cancellation of policies is concerned, particularly those which contain both an investment element and a risk element against dying and / or disabled. There are two arguments on cancellation:

Firstly, life assurance against dying or being disabled can be obtained more cheaply. The remedy is to cash in the policy and take out a new investment and new life assurance cover.

Secondly, life assurance investments perform badly, particularly if the policy is invested in a smoothed bonus-type fund. This is considered as a false argument, because a life assurance investment may or may not under-perform – as with any other investment vehicles – depending on the ability of the company managing the savings.

Cameron (2003:26) briefly outlined the underlying facts on these argument:

The underlying costs of a new policy may be higher than those of the old policy

(c ) The policyholder will probably get a reduced investment value, because there are penalties for early withdrawals

(d) With a smoothed / stable bonus policy, the policyholder may lose guarantees on the capital as well as already vested bonuses

(e) The new investment may or may not perform better than the old one

(f) The risk assurance on the life may cost the client far more, or a client may not get new life assurance, because a client is older and the state of health has change.

However, advisers who sell policies of companies that belong to the Life Offices' Association (LOA) are obliged to follow the LOA Replacement Code. This means that if a policy is being replaced, the adviser must complete a Replacement Policy Advice Record, which compares the features of both policies, so that a policyholder can fully understand the consequences of replacing a policy. The valid reasons for canceling an existing policy should be followed by facts in writing and obtain the option of the company that issued the policy. ***The options include the following:***

***Source:*** Personal Finance, June 21, 2003:26, Section 3.

**3.3.1. Make the policy paid-up**

The policy that includes both a risk and an investment component should be negotiated with the life company in either of the following terms (Cameron, 2003:26):

Alter the existing policy to reduce the investment portion of the premium while retaining the life assurance portion.

Convert the policy to another type of policy, where the client will retain the life assurance cover while reducing the policy premiums by no longer paying into the investment portion.

If the client has accumulated an investment portion, the client may be able to use this money to pay the premiums for the risk portion.

### 3.3.2. Borrow from the policy

Cameron (2003:26) advocates that a life assurance policy is an asset against which the client can borrow money. But the client cannot borrow money from a retirement annuity or preservation fund. Life assurance companies will lend the money in two ways: Unitized, not interest loans and interest-bearing loans. Life assurance company can use both methods or one method.

#### Unitized no-interest loans.

Cameron (2003) further suggests that most of the new life assurance endowment (investment) policies that fall in the "market-related" or "market-linked" category work on much the same principle as unit trusts. For example, thousands of clients invest their money, the money is pooled to buy assets such as shares; the pool is divided into units, the number of units will be proportional to the amount the clients have paid in premiums. It should be noted that if the value of the assets in the investment pool or portfolio increases, so does the value of each unit. If the value of the assets decreases, so does the value of the units. The following arithmetic presentation is projecting the consequences:

The policy has a value of R20 00 with 2 000 units at R10 a unit. If the client takes a loan of R10 000, which effectively cancels 1000 units from the policy.

**Table 3.1: Loan description.**

Description	No. of units	Value
Original units:	2 000	R20 000
Loan:	-1 000	-R10 000
Remaining units	= 1000	= R10 000

**Source:** The Independent on Saturday, June 21, 2003:26

Assume that on the day the client repays the loan the unit price has risen to R15 a unit, the client will be able to buy back only 666 units with the R10 000 and the result will be:

**Table 3.2: Loan payments**

Description	No. of units	Value
Growth of remaining units:	1 000	R15 000
Loan repayment:	+ 666	+R10 000
New value:	= 1 666	=R25 000

**Source:** The Independent on Saturday, June 21, 2003:26.

Adversely, if the client had not taken the loan against the policy, 2 000 units would have been worth R30 000. While with an outstanding loan, the value of the policy will not increase by as much if the market goes up, but neither would it have lost as much if the market falls.

#### Interest-bearing loans

The loan is taken mainly against the older types of policies, often with smoothed bonus policies (Cameron, 2003:26). The client borrows money from the life assurance company, which uses the policy as security and charges the client interest in the same way as a bank. The interest rates charged by some life assurance companies can be quite high, while others have rates competitive with banks. It may be a better option to use the policy as collateral against a loan from a bank, which may give the client a lower rate of interest.

#### 3.3.3. Sell the policy

The client can sell the policy in the second-hand or traded endowment market (Cameron, 2003:26). If it is a large policy, the client will often get a better value than the surrender value of the policy.

Cameron (2003) indicates that the greatest demand in the second-hand market is for smoothed bonus policies, where the investment returns are smoothed out over the term of the policy.

### Intermediaries

The life assurance companies allow unqualified advisers to sell their products. The life assurance companies should take responsibility for their agents (people who are employed by them), but not for independent advisers, who also sell their products. The worse is that the good and qualified independent advisers have their reputations unfairly sullied when the life industry fails to weed out the rotters. It is a reason where an independent financial adviser has been involved, the companies refuse to accept liability. The legal relationship is attributed between the client and the financial adviser. Life assurers should act as the custodians of clients' savings and the clients need to know that the advisers behave with due prudence when it comes to managing the savings. The critical part of all this malpractice is that everyone needs life assurance products and the vast majority of the sales made have been of enormous benefit to ordinary people, and most particularly their dependents. Unethical behaviour will only stop people from using the products that are absolutely essential to ensure financial well-being. Consequently, the public confidence in the life industry is further undermined by the unwise way in which policyholders' money is managed. The life assurance companies must influence on the improvement of the integrity and uprightness of financial advisers, that is, inspiring and motivating the advisers to be honestly more concerned about the clients as a persons that about making money. Although the Financial Advisory and Intermediary Services Act has increased the administrative burden, the legislation offers clients protection from unscrupulous advisers. It can also assist to eliminate misinformation and misunderstanding between client and adviser.

### 3.4. Financial Advisory and Intermediary Services

The Act provides for the licensing of intermediaries in the financial services industry, codes of conduct and other enforcement measures. The fact that there is a professional body to which intermediaries can belong, and various levels of expertise that they can acquire, enhances their professional image in the eyes of the public, and can be used to their advantage from a marketing perspective.

The various disclosures that are required in terms of the below compliance legislation will also ensure that the professional image of the intermediary is further enhanced and quality business is written and lapses are less likely to occur. The Financial Planning Institute (FPI), which has internationally defined standards and courses that are recognized as professional qualifications in SA, has proposed a three tier competency structure that may be used by the Assurance Industry.

The three tier competency structure proposed by the Financial Planning Institute (FPI) fits into the National Qualification Framework (NQF) as follows:

**Table 3.3: Framework for NQF**

National Qualification Framework Levels	Certification Accreditation
NQF 7	Diploma in Financial Planning, title of Certified Financial Planner then conferred by the FPI subject to maintenance, that is ongoing credits need to be obtained. 120 ongoing credits need to be obtained every two years in order for the Intermediary to retain the title of CFP after receiving his Diploma in Financial Planning. For example, Sage life has intermediate courses approved by FPI.
NQF 6	Currently non-existent. The FPI is looking at various Insurance Companies' in-house training courses and is assessing whether a number of these courses could constitute a full or part qualification.
NQF 5	The FPI is looking at accreditation for core modules at this level, more specifically product knowledge, application, ethics and the regulatory environment. For example, Sage Life's Initial Training Course is a possible example of what is required at this level

**Source:** *In Touch*, February 2001, No.147.



The investor confidence and foreign investments will also improve with a properly regulated system where fraudulent and dishonest conduct is prohibited and high standards of conduct are expected and maintained. The financial service provider must comply with the prescribed fit and proper requirements in order to be licensed by the Registrar of Financial Services Providers, acting under the auspices of the Financial Service Board. The aim is consumer protection. Only fit and proper financial services providers will be licensed. Financial Advisory and Intermediary Services (FAIS) is a deliberate attempt to ensure cost-effective regulation. The consultation and flexible approach will also prevent the licensing of financial service providers being too onerous (Financial Services Board, 2000:13, 3rd Quarter).

#### **3.4.1. The objectives of FAIS and Professionalism**

The objective of Financial Advisory and Intermediary Service is to protect consumers by creating an environment wherein financial services will be provided in a professional manner, that is, competently and ethically (Rossouw, 2001:11). Professionalism will ensure that financial services are delivered with "honestly, fairness, due skill, care and diligence and in the best interest of the client" –the principles on which FAIS has been built. Although in the sporting arena a professional is someone who receives payment for the sporting activity he/she is involved with, as opposed to an "amateur", who does not receive payment for participating in a particular sport (Rossouw, 2001:10). The article in Financial Service Board Wilson (2001:10, 4<sup>th</sup> Quarter) describes six attributes of a profession as follows:

##### **Intellectual base**

An intellectual discipline capable of formulation on theoretical, if not academic, lines, requiring a good educational background and tested by examination (Wilson, 2001).

### Private practice

A foundation in private practice so that the essential expertise and standards of the profession derive from meeting the needs of individual clients on a person-to-person basis with remuneration in fees from individual clients rather than a salary or stipend from one source (Wilson, 2001).

#### \* Advisory function

A advisory function, often coupled with an executive function in carrying out what has been advised, or doing ancillary work such as supervising and negotiating, or managing (Wilson, 2001). In exercising both these functions, full responsibility is taken by the person exercising them.

#### \* Tradition of service

An outlook that is essentially objective and disinterested with the motive of making money is subordinated to serving the client in a matter not inconsistent with the public good (Wilson, 2001).

#### \* Representative institute

One or more societies or institutes representing members of the profession, particularly those in private practice, and having the function of safeguarding and developing the expertise and standards of the profession (Wilson, 2001).

#### \* Code of conduct

A code of professional ethics laid down and enforced by the professional institute or body (Wilson, 2001).

It should be understood from the description that professionalism rests on two pillars – competence and ethical behaviour. Someone who is competent but unethical will very likely maximize personal gain at the expense of the client and one who is ethical but incompetent will make mistakes.

Entrusting someone to look after your personal financial affairs is one of the most important decisions that an individual will make in a lifetime. People engaged in providing financial planning for their clients should therefore be highly ethical in dealing with their clients, and should be highly competent in the way they handle their clients' financial affairs.

South African consumers seemed to attach a lot of value to qualifications in the past. Qualifications, however, only convey that the holder had sufficient knowledge at a particular point in time to pass a specific examination. While professional status is subject to maintenance and requires members of professional bodies to do the following (*Source: In Touch, February 2001, No.147*):

- \* To maintain ethical standards on an ongoing basis
- \* To meet with ongoing educational requirements in order to ensure that the holder remains competent
- \* To continuously confirm that the holder is fit and proper, that is solvent, and has not been subject to offences involving dishonesty in any form.

In order to achieve professionalism in the business of financial services delivery, all stakeholders must "buy in" and believe that professionalism leads to sound long-term relationships with clients, and that it is profitable in the long run (FSB Bulletin: 4<sup>th</sup> Quarter, 2001).

### 3.5. Service in the Assurance Industry

Porter (1990:34) elucidates on one of the generic competitive strategies depends upon creating a service which it differentiated from competing offerings and is perceived to have added value by customers.

This perceived differentiation may be achieved across the whole industry or may be restricted to a particular segment of the market. For example, South African assurance companies are relying on the segmentation strategy, that is African life, Avbob and Clientelle are concentrating on black consumers while Sanlam, Old Mutual and Sage life are concentrating on normal people.

The primary role of any branding involved is, therefore to encapsulate the key attributes of the differentiation so as to enable it to be communicated consistently to as wide an audience of existing and potential customers as possible.

In the Life Assurance industry, a major element of many successful differentiation strategies is the quality of service, which is offered. It can be incorporated in a brand image and may vary across a particular industry in that differing levels of quality may be used to create equally successful competitive advantage. Porter (1990:35) further proposes that a firm's competitive advantage in a industry is determined by its competitive scope, that is, the breadth of the company's or business unit's target market. Insurance broke is service where the broker acts as an intermediary between the company requiring insurance and the insurance market supplying the cover. Therefore, it is perfectly possible for an insurance broker to create a successful strategy based on their professional excellence and totally objective advice in obtaining the best insurance cover for their clients.

Developing a quality position in this market does dictate that a number of consequent steps must taken by the insurance broker.

The cost-base associated with such a level of service will almost certainly be high relative to the competitor providing an average level of service. Hunger and Wheelen (1996:185) elaborate on differentiation as a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price.

Increased costs usually can be passed on to the buyers. Caves and Ghemawet (1992) suggest that a differentiation strategy is more likely to generate higher profits than is a low-cost strategy because differentiation creates a better entry barrier. However, a low-cost strategy is more likely to generate increases in market share.

The critical issue in successfully implementing such a strategy is in identifying which customers are likely to place a high value on such a high quality service and who will, therefore, be loyal to a broker producing such excellent advice. The way of implementing this type of strategy would be to attempt to transform the pricing strategy of the industry. Ward (1993:52) suggests that instead of receiving commissions based on premiums paid by their clients, the insurance broker could charge a fee to the clients for its advisory and administration work, but rebate to the clients all commissions received from the insurance market. The argument is that this pricing structure would ensure that the broker was completely objective in its advice, rather than being tempted to recommend one particular insurance company, which paid a higher rate of brokerage commission. Ward (1993) emphasizes that the approach will enable the service provider to focus on those areas of activity where it adds most value to the customer, rather than providing an all embracing service, where parts may be of almost no added value. Such an analysis may also indicate, if the insurance broker is efficiently organized, that it makes economic sense for it to take over a much greater proportion of the risk management role for the client.

However, if an assurance company can create a very strong brand image of security, trust, permanence and a sound track record, the consumer is likely to favour that company over its competitors.

Ward (1993) argues that it is very difficult in this assurance industry to create a sustainable competitive advantage through launching innovative products because, by the rapid application of reverse engineering techniques, competitors will be able to copy the product very soon after it is made publicly available.

For example, private health insurance is another interesting example of differentiation by focusing on a tightly defined niche. These companies have developed brand images based on the customer's perception of them providing a high level of specialized health care, which can be rapidly accessed whenever necessary.

If the operation is not urgently required, its timing can be made to suit business and personal commitments of the customer, rather than the efficient operation of the health-care insurer's hospital. It should be remembered that the best way of differentiating the product and providing what is perceived as a high quality service is by increasing the speed of response to the customer. While advances in technology are being used as major ways of achieving this type of competitive advantage in many service industries, including some where technology is also a potential source of differentiation.

## **CHAPTER 4: Corporate Social Responsibility**

### **4.1. Bearing of Corporate Social Responsibility**

Corporate social responsibility is referred to as the managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organizations (Davis and Blomstrom, 1975:6). It is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified through relation and corporate governance (Johnson and Scholes, 2002:220). Corporate social responsibility includes considerations as to how the conflicting demands of different stakeholders can be reconciled. Stakeholder can be defined as any person or party that can affect or be affected by the activities and policies of an organization. Stakeholders are categorized as narrow stakeholders (i.e. include those that are most affected by the organization's policies, for example shareholders, management, employees, suppliers and customers). The wide shareholders (include those that are less affected, for example government, less-dependent customers and wider community). Managers are usually in a powerful position within organizations to influence the expectations of other stakeholders. They have access to information and channels of influence, which are not available to many other stakeholders. With this power comes an ethical responsibility to behave with integrity. Although CSR is inextricably linked to corporate ethics, it is a more inclusive conceptualization of companies' responsibility to society at large that encompasses their more specific ethical responsibilities to abide by a set of moral principles or values in conducting business (Carrol,1991). The ethical behaviour by individuals or groups within a corporation is socially responsible, but corporate social responsibility extends beyond good business ethics in representing that corporation's moral obligation to maximize its positive impact and minimize its negative impact on society (Pride and Ferrell, 1997).

A comprehensive summary of the different corporate social responsibility actions in contained Socrates' database and reduced into six broad domains: (Kinder , Lydenberg, Domini and Co. Inc. 1999).

1. Community support (e.g. support of arts and health programs, education and housing initiatives for the economically disadvantaged, generous / innovative giving).
2. Diversity (e.g. sex, race, family, and disability-based diversity record and initiatives).
3. Environment (e.g. environmental friendly products, hazardous waste management, use of ozone depleting chemicals, animal testing, pollution control and recycling)
4. Employee support (e.g. concern for safety, job security, profit sharing, union relations and employee involvement)
5. Operations (e.g. overseas labour practices and operations in countries with human rights violations)
6. Product (e.g. product safety, research and development / innovation and marketing / contracting controversies)

The study will attempt to explore the relationships between a company's corporate social responsibility actions and clients' evaluations of both the company and its specific product offerings. Creyer and Ross (1997) focus more specifically on company ethics to show a positive relationship between clients' preference for a company's products and the extent to which their perceptions of that company's ethicality exceed their expectations.

#### 4.2. Nature of Social Responsibility

The perceived obligations of business within a framework of corporate responsibility have been widely debated within the academic literature and cover a range of activities from worker welfare through product liability to environmental impacts (Carroll, 1979).



However, the complexity of the issues, raised by the question of corporate responsibility, combined to make the precise definition of the term difficult. Jones (1980:59-60) for example, argues that within a framework of corporate responsibility it is incumbent upon corporations to have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract. Jones (1980) further argues that the obligation has to be voluntary and the scope of the responsibility must be so broad as to go beyond the traditional stakeholders concepts. In developing this theme, Murray and Montanari (1986:816) define the nature of a socially responsible firm as one which is seen to accomplish the desired ends of society in terms of moral, economic, legal, ethical and discretionary expectations. *It is well-presented in the following table:*

**Table 4.1: Nature of Social Responsibility**

<p><b>Discretionary Responsibility</b></p> <p><i>"Go beyond the call of duty"</i></p>
<p><b>Ethical Responsibility</b></p> <p><i>"Do what is right"</i></p>
<p><b>Legal Responsibility</b></p> <p><i>"Play by the rules"</i></p>
<p><b>Economic Responsibility</b></p> <p><i>"Run an efficient and effective business"</i></p>

**Source:** Archie B. Carroll, "A Three-Dimensional Model of Corporate Performance," Academy of Management Review, 1979, Vol.4, p. 499.

However, such a definition would be too broad in that it goes beyond the economic and legal limits, which were often held to mark the boundaries of the firm's responsibility. Given the concern over the boundaries of responsibility we need to ask the question, how far should we expect industry to go within the context of its behaviour? Davis (1975) argues that the obligation of the business decision-maker is to improve the quality of life enjoyed by society, in addition to maximizing his / her own business interests. While Sethi (1975:59) argues that a specific action is more or less socially responsible only within the framework of time, environment and the nature of the parties involved. The same business activity may be considered socially responsible at one time, under one set of circumstances and in one culture, and socially irresponsible at another time, in another place and under different circumstances.

The problem of predicting the nature of future societal demands has made many corporations to be reactive to such pressures rather than seeking to be proactive. As a result, society demands more than mere conformity with the law, or a reliance on the market. The firm seeks to go beyond that prescribed by law and contract and instead seeks to conform to the current demands of the society. Sethi (1975:62) further defines this process of corporate responsibility as bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values and expectations of performance. While the concept of social obligation is proscriptive in nature, the concept of social responsibility is prescriptive in nature.

The industry should take account of the likely societal demands when formulating their strategies and re-order their priorities as a consequence. However, the reality of the situation is that many organizations are still too reactive and seek to handle disturbances rather than think strategically about such problems (Mintzberg, 1989). The corporations have to predict the likely demands that will be placed upon it over a long time span.

Carrol (1979) offers a framework for the analysis of corporate performance across a range of activities:

Firstly, it relates to the responsibilities of the organization in terms of its economic, legal, ethical and discretionary responsibilities.

Secondly, it concerns the social issues involved within the process and these include the environment, product and occupational safety, in addition to consumerism, discrimination and shareholder interests.

Thirdly, it relates to the components of organizational response, reaction, defence, accommodation and proaction.

#### 4.3. Corporate Responsibility in Strategic perspective

The important point to be made is that notions of ethical behaviour underpin the strategy process as decision-makers tend to act in accordance with their own value systems (Goodpaster, 1983). Freeman and Gilbert (1988) outline two fundamental principles within this approach that is, the values principle and the interdependence principle.

**Value principle:** it lies in the assumption that all actions taken by the organization and its constituent members are underpinned by the values held by those individuals and groups.

**Interdependence principle:** any actions taken by them will involve decisions or choices which, in turn, will be affected by the dominant value system. Freeman and Gilbert (1988) further argue that the process of strategic management must take formal account of the values held by members of the organization and other stakeholders in influencing policy formulation and implementation. As such, the strategies adopted by corporations should rest upon sound ethical principles and decision-makers should attempt to make the organization both more democratic and less analytical in order to cope with the pressures of an ethically aware regime.

Corporate strategy, which ignores the role of people in the organization simply ignores why organizational members act in the way they do.

Corporate strategy must return to the individual values of corporate members, before it is formulated. It must be built on these values rather than taking them as constraining forces. Thompson (2001:18) defines corporate strategy as an overall strategy for a diversified or multi-product / multi-service organization. It is essentially deciding what businesses the organization should be in and how the overall group of activities should be structured and managed.

It has been described by Porter (1990), that as the overall plan for a diversified business, although it is perfectly acceptable for a business to elect to stay focused on only one product or service range. The necessity to strive towards legitimacy is a powerful force acting on the corporation and requires careful management in order to ensure that corporation does not get overtaken by shifts in public opinion. But such shifts in society's preferences also bring with them opportunities for development. The corporations should maintain a prime motivator that is, economic self-interest to drive companies toward social responsibility. Mintzberg (1983:4) argues that social responsibility is manifest in a number of ways: responsibility for its own, enlightened self-interest, sound investment theory and the circumvention of outside influence.

- Enlightened self-interest assumes that benefits will accrue to the organization, largely in an indirect manner, as a result of behaving in a responsible manner.
- Sound investment theory is based on the premise that the value of an organization will be affected by the market's perception of its social behaviour. The basis of this proposition is that the market will reward behaviour that is perceived to be in the interests of society and conversely will punish behaviour that is seen to be detrimental (Mintzberg, 1983). Sound investment theory has the propensity to epitomize the operating in a synergistic manner.

- The notion of advantageous effects arising from corporate behaviour is a key element within the process of the sound-investment theory. Mintzberg (1983:4) further unleashes the basis of argument that one behaves responsibly not because of ethics because that is the proper way to behave but because it is to one's advantage to do so.
- Avoiding interference: the aim of the corporation is to avoid political interference, expressed in terms of pressure group activity or increased regulatory pressure from the government, although it is argued that in the process rhetoric, rather than action, often ensues.

#### 4.4. Consequences of Corporate Social Responsibility

A company's corporate social responsibility record, instead of providing information about the attributes or overall quality of its products, creates a general context for clients' evaluation. Brown and Dacin (1997) show that corporate social responsibility's effect on clients' preference for a company industry' product occurs through clients' overall evaluation of the company itself. Negative corporate social responsibility associations can have a detrimental effect on overall product evaluations, whereas positive corporate social responsibility associations can enhance product evaluations. Although this aggregate positive relationship between a company's corporate social responsibility record and clients' willingness to patronize the company represents an important beginning in the understanding of corporate social responsibility, it masks potentially important company and client-specific difference.

Clients are more likely to identify with an organization when they perceive its identity to be enduring, distinctive, and capable of enhancing their self-esteem. A company's character as revealed by its corporate social responsibility actions is not only fundamental and relatively enduring.

Moreover, identification with an organization engaged in do-good corporate social responsibility actions can contribute to clients' self-esteem. Researchers expect a company's corporate social responsibility actions to affect clients' perceptions of company character congruence. Such perceptions of company character congruence are likely to vary with clients' personal support of the domain of the company's corporate social responsibility actions (corporate social responsibility support).

Clients whose self-concept includes support of the company's corporate social responsibility domain (that is, high corporate social responsibility) will perceive greater congruence between themselves. And that company, either in terms of common attributes or a shared prototype, than will those whose support of that domain is low (that is, low corporate social responsibility support).

Stronger identification with an organization not only strengthens clients' desire to seek contact with and support that organization but also enhances organization-relevant citizenship behaviours. Brown and Dacin (1997) demonstrate that when clients evaluate a high-quality product in the context of unfavourable corporate associations, their product evaluations are contrasted away from this context and therefore are higher than their evaluations of the same product in the context of favourable corporate associations.

## 4.5. Propensity to underpin Assurance Industry

### 4.5.1. The underpinning Legal framework

Assurance companies in South Africa are governed by comprehensive legislation, mainly contained in the Insurance Act, No. 27 of 1943, as amended by subsequent legislation, including that dealing with financial institutions. This act is to be replaced from 1 January 1998 with two separate laws, that is the Long-term Insurance Act and the Short-term Insurance Act. In both cases the outdated policy classes have been rewritten to cater for product development and the shifting profile of the businesses; time-expired provisions have been deleted; and the Registrar's powers are more comprehensively, and clearly expressed with particular reference to helping troubled insurers to regain financial soundness and also to deal firmly with unregistered operations and other offenders.

Fourie, Falkena and Kok (1999) identified one of the main purposes of the legislation, that is, to ensure that life offices remain solvent and able to discharge their obligations to the public. The legislation takes note of the fact that in this regard life insurance is subject to tests somewhat different from those applying to ordinary commercial activity. The Act requires all insurers to be registered, imposes stringent conditions on registration and forbids an unregistered person to do business. In addition, a new insurer has to satisfy the Registrar that its entry into the field is in the public interest.

An important feature is Section 59D of the Insurance Act, introduced with the purpose of clearly distinguishing the investment business conducted by banks from the investment business conducted by life offices. Life insurers may not:

- Pay an endowment type benefit within 5 years of a policy's commencement date.

- Pay annuities over less than 5 years or vary them by more than 20% from year to year
- Pay more than one cash value that exceeds all premiums plus 5% compound interest within 5 years of policy commencement.
- Increase premiums by more than 20% unless the restrictions above are applied again.

Outside of actual legal requirements, there is an Ombudsman for the short-term insurance industry to whom private members of the public may turn for assistance if they feel their insurance company has not acted correctly. The Ombudsman gives advice and can make recommendations. He or she is not in a position to make a ruling that has to be followed by an insurance company, although most insurance companies now abide by the recommendations of the Ombudsman.

#### 4.5.2. The role of the Ombudsman

##### 4.5.2.1. Ombudsman for Long-term Insurance

The mission of the Ombudsman for Long-term Insurance is to mediate disputes between the subscribing members of the industry and policyholders. The Annual Report (2002) highlights their missionary act to ensure that:

- He acts independently and objectively in advising on any complaint received and takes no instructions from anybody regarding the exercise of his authority
- The subscribing members of the industry act with fairness and with due regard to both the letter and spirit of the contract between the parties and render an efficient service to those with whom they contract
- He keeps the scale in balance between the rights of the policyholders on the one hand and the rights of the subscribing members on the other; and
- Due weight is accorded to considerations of equity.



Although the Ombudsman's office conscientiously continued to maintain an approach, structure and style, directed at securing conciliation rather than confrontation, and mediation rather than adjudication, it acquired the ultimate sanction of taking a decision which, was binding on the subscribing members of the industry. The office could only advise the industry that a particular decision was either not in accordance with the policy contract or was so unreasonable or unfair, that it could not be supported.

The main purpose for an Ombudsman has an element of good corporate governance in the Financial services Industry. Good corporate governance requires the private sector to develop mechanisms that ensure that business in general, but the financial services industry in particular, deals fairly with those who consume their products. The long-term insurance industry has a duty to deal efficiently with the public savings it administers.

It must also create an administrative framework that operates on the assumption that they are also obliged to act fairly in their dealings with their client base.

According Van Niekerk (Annual Report, 2002), the Ombudsman's office seeks to ensure that:

- The office provides free access to those who contract with the financial services industry for the resolution of disputes that arise
- It holds the scale in balance in the equation between the powerful and the powerless
- It proactively identifies unacceptable business practices. Once identified they try to negotiate their discontinuation – failing which they advise an appropriate legislative or regulatory response
- The outcomes are just and equitable. Contracts are construed so that they are consonant with and fulfil the reasonable expectations of honest men.

Part of the rules in the Long-term Insurance Act legislation has to enable the policyholder to make informed decisions in regard to transactions involving long-term policies and to ensure that intermediaries and insurers conduct business honestly and fairly, and with appropriate care and diligence. Steyn (Ombudsman for Long-term Insurance, FSB report: 2001) suggested that these objectives are to be achieved by means of disclosure and by regulating the conduct of insurers and intermediaries. It involves a cooling-off period and there are rules in respect of replacement policies. There are also the following *measures*:

- Intermediaries must have a written mandate from the insurer to sell a product.
- The insurer must give the reason to the policyholder or claimant for not paying a claim
- The practice of signing blank forms and allowing someone else to fill in details at a later stage will be an offence by the insurance parties.

The rule of greater disclosure should benefit policyholders. It will also assist the Office of the Ombudsman in factual disputes regarding the sales process as documentary proof of what was negotiated should now be available and will facilitate the dispute resolution process. The process should create more effective protection for the consumer.

#### 4.5.2.2. Short-term Insurance Ombudsman

Short-term Insurance Ombudsman's Office was a creation of, and administered and controlled financially by the industry through the South African Insurance Association (FSB, 2002:10, 2<sup>nd</sup> Quarter). All members used to make contributions to the Association to defray the cost of running the office. The short-term insurance ombudsman should be independent to recognize the consumer lack of confidence.

The Ombudsman will acquire power to make recommendations or rulings based either on legal grounds, or on grounds of equity, or fair insurance practice, which would be binding on all SAIA insurers and have the same effect as a court decision. However, recommendations against a claimant would still not be binding on the claimant who could in any case pursue his claim in a Court of Law. It could further create a duty to assist the public and consumer organizations in education programmes, and to encourage the industry in all forms of improvement of staff / consumer relationships. This independent Ombudsman body will have full powers to assist with public and consumer complaints within its jurisdiction, and one that can make binding rulings in favour of complaints, either of legal or equitable merits.

#### 4.5.3. The role of the Regulator

One of the purposes of regulation, and specifically the regulation of the non-banking financial services industry (in this case Assurance Industry) as the Financial Services Board (FSB) is commissioned to do, is to protect the user of financial services and promote public understanding of the financial system. The four major objectives in this regard (Financial Services Board Bulletin, Second Quarter, 2002:10):

- Ensuring access to information
- Providing rules of fair play
- Establishing qualifications and standards of conduct for people in fiduciary positions
- Protecting the integrity of the market and enhancing the confidence on investors

Through effective regulation, the FSB has been able to promote the fair and efficient operations of South Africa's non-banking financial services industry, as well as the development of a dynamic and competitive financial services industry (Van Zyl, 2002).

Over and above its supervisory function, the FSB also acts as advisor to the Ministry of Finance to ensure that client's interests are looked after when policies concerning financial institutions and services are laid down. Although supervision provides a high level of investor protection, the ultimate responsibility for prudent management of clients' funds lies with the institutions that keep the money. Franso van Zyl (2002) stresses the fact that it is important to realize that the regulator cannot guarantee the client's savings, but can only set up a framework of mechanisms to safeguard it.

The investor is someone who hands his money over to another party (financial services provider) so that it can be invested in such a way that it yields the highest possible return. It is the FSB's task as regulator to help the investor to realize the expectations. But the same framework must not stifle innovation and effective competition. The danger of a statutory regulatory framework is that it may create a false sense of security among investors. Franso van Zyl (2002) suggests that regulation and supervision cannot eliminate risk, but it can expose risky areas to the client. A client has to learn to discriminate between risky and less risky investments, and good and bad suppliers of Life Assurance products. The purpose of a regulatory framework is also to grant the client certain basic rights on which his protection exploited.

The Financial Services Board Bulletin, Second Quarter (2002:10 – 11) ***highlights the basic rights:***

- The right to information

Information disclosure by regulated institutions to the public and the marketplace is an integral part of regulation and client protection. An educated client may be able to recognize misleading or fraudulent advertisements, deceptive promotion techniques or other practices intent on exploiting his ignorance. The Financial Services Board has been instrumental in creating further measures to ensure best financial reporting practice, that is through the drafting of the Financial Reporting Bill, 2002.

The bill will provide for the laying down of reporting standards and the supervision and enforcement of these standards, among other things. Disclosure of information means that the client will be able to judge the extent of the risk involved in making his investment, but only the most sophisticated client will be able to make a truly informed decision.

- The right to choose

The right to choose presupposes that the client is not subjected to monopolistic investment business ventures that are able to manipulate prices or limit the availability of products on the market. Healthy competition in the South African financial services industry ensures that the quality of service remains high and that product prices are market-related. The Financial Service Board elucidates that an over-regulated industry may give infinite protection to the client, but it may also severely limit his options. It further suggests that allowing an industry to grow to its full potential also means allowing failures when economic circumstances change to the detriment.

The introduction of the Policyholder Protection Rules by the Financial Services Board in July 2001, for instance was done to ensure that customers are provided with sufficient information to make an informed choice about insurance products before the purchase is made.

- The right to honesty

There are laws in place to prevent insider trading, market manipulation, non-disclosure of information and other malpractice to avoid losses to clients. There are laws that specify what information must be disclosed and how this should be done, and laws that prescribe waiting periods during which time the contract can be voided. Consumer education and the licensing of responsible service providers also play a significant role in preventing dishonesty, and the regulator has a specific duty.

However, no amount of regulation and laying down of ethical codes will ever be enough to erase dishonest conduct from human nature, or to protect clients against their own greed. Through legislation, such as the Financial Advisory and Intermediary Services Bill (2001), the Financial Services Board can enforce entry requirements and professional codes of conduct to help ensure that clients are not exposed to incompetent and unscrupulous advisers and intermediaries.

- The right to redress

The assumption is that clients and suppliers of financial services contract on an equal footing, and the client should therefore be able to look after his own interests. But all too often the client finds himself overmatched by a supplier of financial services on account of vulnerability, ignorance or inexperience, and unable to redress because none of the recognized defence mechanisms avail him. Furthermore, courts have a limited remedial arsenal they can assert against a losing defendant and may only serve to prevent instant harm to the plaintiff. *Ex post facto* remedies for loss must therefore, be supplemented by statutory remedies as well as regulation to prevent losses.

Financial Services Board has made meaningful contributions, such as the promulgation of the Insider Trading Act, 1998. This Act allows for criminal and civil remedies against suspected transgressors. More recently, the Financial Services Ombudschemes Bill (2001), provides for the creation of a catch-all ombudsman that will open up additional channels for speedy and cost-effective handling of complaints.

- The right to a fair deal

The most obvious problem in making a fair deal is that the client is likely to be confronted with information asymmetry. The client may have difficulty understanding the relevant financial product. In this regard, the market for generic advice, where advisers are not commission-driven, should at least be promoted for less sophisticated consumers of financial services.

There are too many weaknesses in the common law to effectively protect the rights of the client. For that reason it is important to create specific regulatory measures and structures to protect the client's right to a fair contract.

In pursuit of the objectives of regulation such as the protection of the client, promoting the public understanding of financial system and reducing financial crime, the regulator needs to take a risk-based approach. That means looking at the risks from the viewpoint of the individual institutions as well as emerging risks in the market. In the South African context the regulation of the financial services industry has proved to be a crucial instrument in maintaining a healthy economic growth.

There are 12 recommendations from the Financial Services Board Report (Personal Finance, Section 3, June 21, 2003):

1. There is room for improvement in the record keeping of life assurance companies in general, especially when managing assets in relation to liabilities (what life assurance companies must pay out to policyholders in the future). There should be a clear distinction between shareholders' assets and policyholders' assets. Financial Services Board believes that the separation of shareholder and policyholder assets should become standard practice in the life assurance industry.
2. Research should be initiated into practically feasible standardization of life assurance and competing products in South Africa.
3. The Actuarial Association of South Africa should draft guidelines for product design, pricing, valuation, investment mandates and valuation of smoothed bonus policies.
4. The compulsory annual analysis of the surpluses (assets in excess of liabilities) held by life assurance companies, needs to be more detailed than the one currently required by the Registrar of Long-Term Insurance.

5. Prior to publishing interim financial results, internally or externally, the statutory actuary should obtain a certificate from the life assurer regarding any change of value in policyholder liabilities.
6. The independence of statutory actuaries and the requirements in the King II Corporate Governance Report – for the implementation of actuarial committees as part of the boards of directors of life assurance companies – should be revisited.
7. The Registrar of Long-Term Insurance needs to implement better measures to protect the interests of policyholders, especially in hostile takeovers between life insurers.
8. The non-executive directors of life insurers should receive some form of training in their duties.
9. Jurisdictional conflicts between the various offices of ombudsman and adjudicators should be addressed. Preferably, a single ombudsman office should eventually be established to provide complainants with a single entry point.
10. Regulations governing underlying investments made by asset managers of policyholder funds should be revisited to limit investments relative to the size of individual counters in the All Share index to ensure proper diversification.
11. More self-regulation in the industry should be investigated, in order to lighten the burden on the office of the Registrar of Long-term insurance.
12. Auditors should be part of the asset liability management team of life assurance companies. This may call for the implementation of training modules for auditors in the intricacies of the life assurance industry.

These recommendations emanated from **Fedsure** inspection report on using policyholders' money to make strategic investments and other factors such as;

- inability of Fedsure to properly manage the merger with financial services company Norwich,
- failure to recognize that people are living longer,



- The keeping of shareholders' and policyholders' money in a single pot, which exacerbated problems in working out the assets and liabilities of the company
- Poor management
- The failure of information technology systems, which undermined the ability of Fedsure to provide a proper service to policyholders as well as manage the business properly.

**Source:** Personal Finance, June 21, 2003:25.

The Statistical records presents the problems for 1998 on-wards in comparison to other life assurance companies. This discloses how Fedsure investors lost out relative to other Investment choices:

**Table 4.2: Investment choices**

<b>Year</b>	<b>Fedsure Guaranteed fund</b>	<b>Metropolit an life (Old series)</b>	<b>Old Mutual Guaranteed fund</b>	<b>Sanlam (Stable bonus)</b>	<b>Fedlink Balanced fund</b>
1990	19.75%	19.00%	21.75%	19.00%	2.39%
1991	20.75%	20.25%	20.75%	21.00%	27.66%
1992	16.75%	19.50%	19.75%	20.00%	7.76%
1993	17.00%	17.75%	15.75%	15.75%	32.96%
1994	17.75%	20.00%	17.75%	18.50%	17.88%
1995	15.25%	17.25%	14.65%	14.75%	14.80%
1996	18.00%	18.75%	19.65%	17.75%	5.22%
1997	17.50%	17.00%	18.15%	14.50%	13.22%
1998	7.00%	7.65%	6.65%	4.65%	3.32%
1999	12.00%	8.65%	9.65%	17.08%	30.18%
2000	0.00%	14.29%	15.65%	13.58%	1.40%
2001	<b>-12.00%</b>	13.30%	15.15%	13.08%	19.25%
Internal Rate of Return (IRR) since 1990 (single premium)	13.22%	17.62%	17.79%	17.27%	15.56%
IRR since 1990 (recurring premium)	11.49%	17.70%	17.86%	17.42%	16.68%

*Source: Financial Services Board Report (Personal Finance, June 21, 2003, p.25)*

**Note:**

Fedlink (Balance fund) – these rates net of charges of 2.5 percent on the Fedlink balanced fund.

-12.00% (Fedsure guaranteed fund) consisted of a nil vesting bonus declared, and 12 % of non-vested bonuses cancelled.

Therefore, there is a believe that policyholders would obviously benefit through a successful growth strategy. However, there is a view that policyholders' funds should not have been exposed to the risk of significant losses if the growth strategy failed. To finance a growth strategy with policyholders' money, thereby investing large chunks in single companies (like Fedsure Life did with Inhold / Investec, Saambou and FBC / Fedility), appears to be approaching the practice of running a pyramid scheme, that is using new policyholders' money to provide returns on old policies. Fedsure broke the most common rules of investing, which apply as much to individuals as they do to companies that accept the responsibility of managing the savings of individuals. Fedsure should have acted as the custodian of the money of ordinary people rather than attempting to build a financial service empire. They should not have insinuated that past performance is a guarantee of future performance and became over-ambitious. The practices have tarnished the image of Life Assurance Industry, which have changed the clients' perceptions about the industry.

## **CHAPTER 5: Research design and Methodology**

### **5.1. Research design**

#### **5.1.1. Population and sample**

The population and sample for the study are described in sufficient detail to permit the readers or researchers to develop a good feel for both, and to come to their own conclusions about the validity of the results and their generalizability. The sampling design, the actual sample size used, and the sample characteristics are fully detailed so that replications of the study are possible. The biographic / demographic characteristics of the sample include the race, composition of gender, age, highest education levels, current employment position and marital status. Histograms of these characteristics from the frequency-distribution analysis are presented.

University of Durban Westville was chosen for the study and certain categories were also chosen through a simple random sampling procedure. The permission was obtained from the University various departments to administer questionnaires to their employees. A Stratified proportionate random sampling procedure was adopted to include employees at the Academic and Non-academic levels. The process of stratification or segregation allows a random selection of subjects from each stratum. It allows the population to be divided into mutually exclusive groups that are relevant, appropriate and meaningful in the context of the study.

The groups are composed of 270 staff members. The subjects drawn from each stratum are proportionate to the number of elements in the stratum. The university's faculties selected have 156 Academics, 10 Institutional Support staff, 14 Academic Support staff, and 28 Student Service Support staff. The stratified sample of about 50 staff was targeted for this study.

The 18% from the members of each stratum have been included in the sample. Table 5.1 presents the proportionate stratified random sampling design.

**Table 5.1: Proportionate Stratified Random Sampling Design**

<b>Category</b>	<b>Number of elements</b>	<b>Proportionate Sampling (18% of the elements)</b>
Academics (Lecturers)	156	28
Academic Support staff	76	14
Student Service Support staff	28	6
Institutional Support staff	10	2
<b>Total</b>	<b>170</b>	<b>50</b>

**Note:**  $50 / 270 = .18$  multiplied by  $100\% = 18\%$

The members represented in the sample from each stratum are proportionate to the total number of elements in the perspective strata.

### **5.1.2. Data Collection**

The study is cross-sectional and quantitative. The questionnaire was designed and it is made up of the following sections:

**Section 1:** Biographical data.

**Section 2:** General experiences of subjects (simple category scale (dichotomous) – Yes / No). Spaces are provided to certain questions to briefly comment on the item.

**Section 3:** Subjects' perceptions / feelings about life assurance services (Five-point Likert scales were used ranging from 1 "strongly agree" to 5 "strongly disagree")

**Section 4:** Relate to the company evaluations and purchase intentions on corporate social responsibility initiatives. The items relate to the perceptions towards companies where CSR has a bearing on buying decisions. (Likert scales were used on how strongly agree or disagree ranging from 1 to 5).

**Section 5:** Requirements in the life assurance industry and perceptions of importance of life assurance Act as protective mechanisms for clients. The multiple Rating List Scales were used ranging from 1 "Most important" to 5 "Least important".

After developing the theoretical framework for the study, the questionnaires were developed and administered on the University premises and staff members were given a week to complete them, because practically subjects have busy schedules and deadlines to meet. The staff members were assured that their responses would be anonymous and confidential as stated on the questionnaires' instructions.

The sample frame of 50 staff members took part using a proportionate random sampling procedure and they all returned the questionnaires. Not all of them utilized the spaces provided for comments. There was not a single questionnaire discarded because all appropriate questions were answered.

## **5.2. Methodology**

### **5.2.1. Quantitative Analysis**

The Likert type scale used in the questionnaire produced ordinal data. The method of descriptive statistics was used to analysis the data. With the help of the SPSS computer program the following analysis was performed on the data.

### **5.2.2. Factor Analysis**

Factor analysis has been summarized as a method of transforming the original variables into new, non-correlated variables, called factors. Each factor will be the linear combination of the original variables. The Principal Component Analysis will be used to generate a first factor that will have the maximum explained variance. The study's research questions revolve around university staff perceptions, corporate social responsibility and propensity to support / purchase life assurance products. The respondents were asked their opinion on a 1 to 5, "agree – disagree scale" and "most important – least important scale" on certain questions.

After factors have been generated by principal components, they were rotated using one of the many rotation schemes, such as Varimax rotation.

The tables that were interpreted: Factor loading, variance explained, factor rotation and naming of factors. The goal of factor analysis in this study is to reduce large number variables to as few dimensions or constructs as possible.

### **5.2.3. Ranking of factor means**

This technique enables statistical manipulation and valid statistical interpretation of inherently ordinal data by converting it into interval data. The distances were used to recreate the interval scale ranging from 1 to 5.

## **CHAPTER 6: RESULTS**

### **6.1. Introduction**

The results section address three main sections:

- (a) The sample characteristics and dichotomous (simple category scale) where respondents were supposed to answer Yes / No. The other variables will be presented on pie graphs where respondents were supposed to scale responses from disagree to agree.
- (b) Factor analysis with different tables was performed.
- (c) Ranking of factor means was performed.

The summary of results was obtained from the questionnaires administered. The introductory information gathered on the sample was also analyzed in order to understand the sample characteristics.

All 50 questionnaires sent out were returned, resulting in a 100% return rate. The introductory questions on the first page were used to describe the sample and the twenty questions in the questionnaire were statistically analyzed.

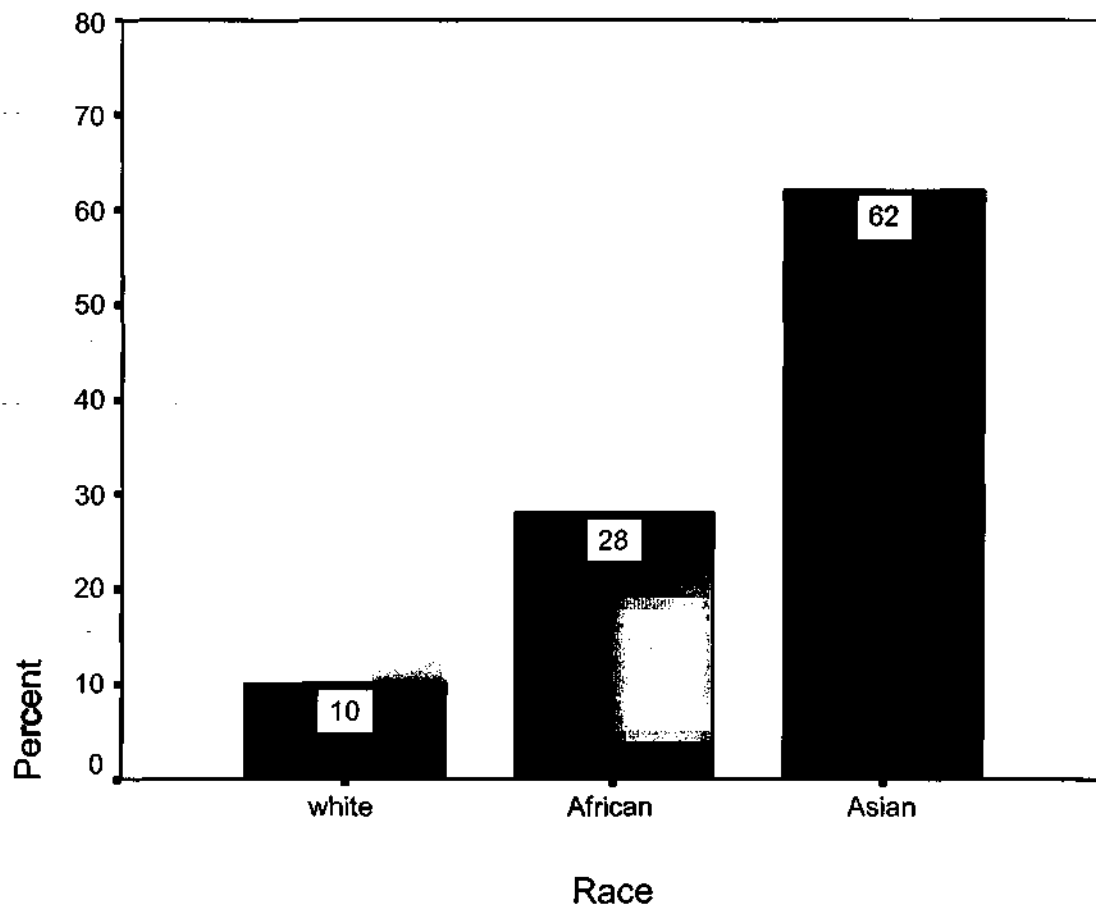


## 6.2. Frequency Distribution

### 6.2.1. Biographical Data

Figure 6.1.

**Q:1**      ***Distribution of sample by race.***



The sample size indicates that the majority of respondents were Asian (62%), 28% of respondents were African and 10% were White. No Coloured respondents contributed to this study. This could be attributed to the demographic composition of the University.

Figure 6.2.

**Q:2**      ***Distribution of sample by gender.***

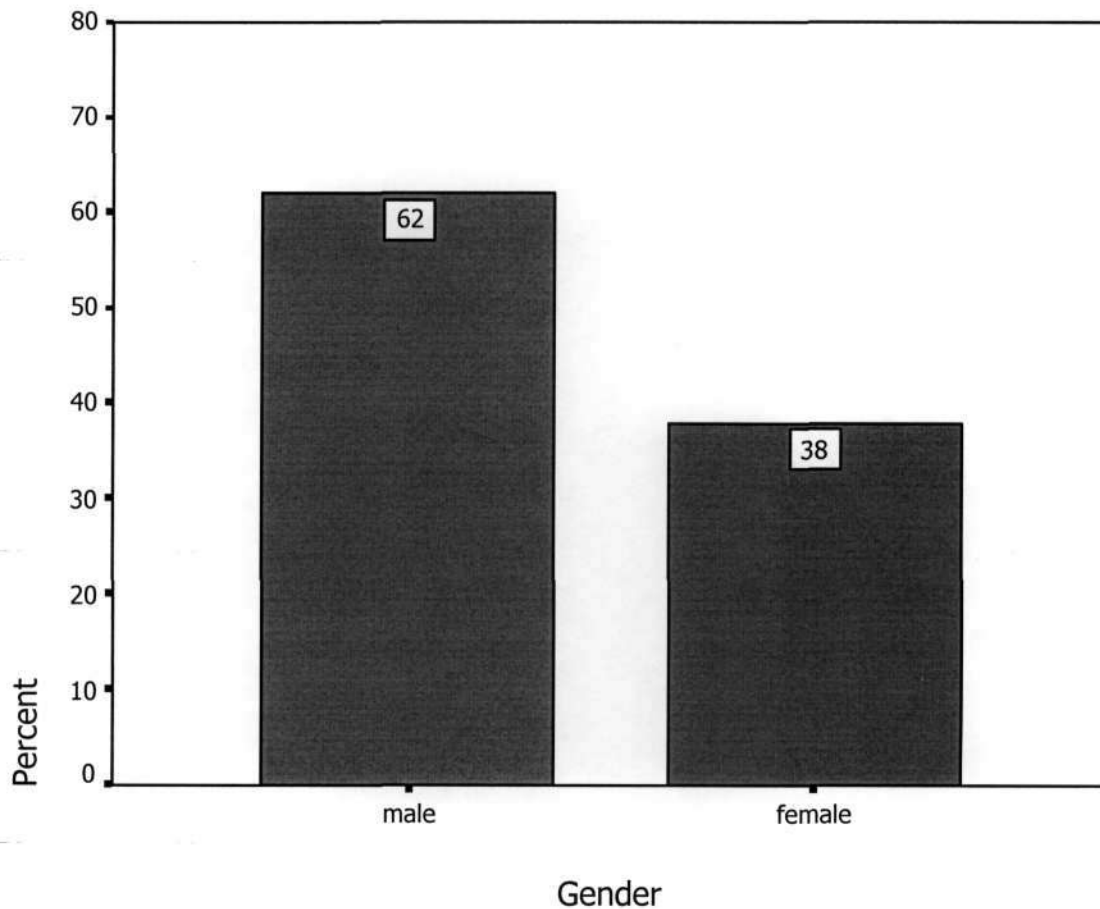
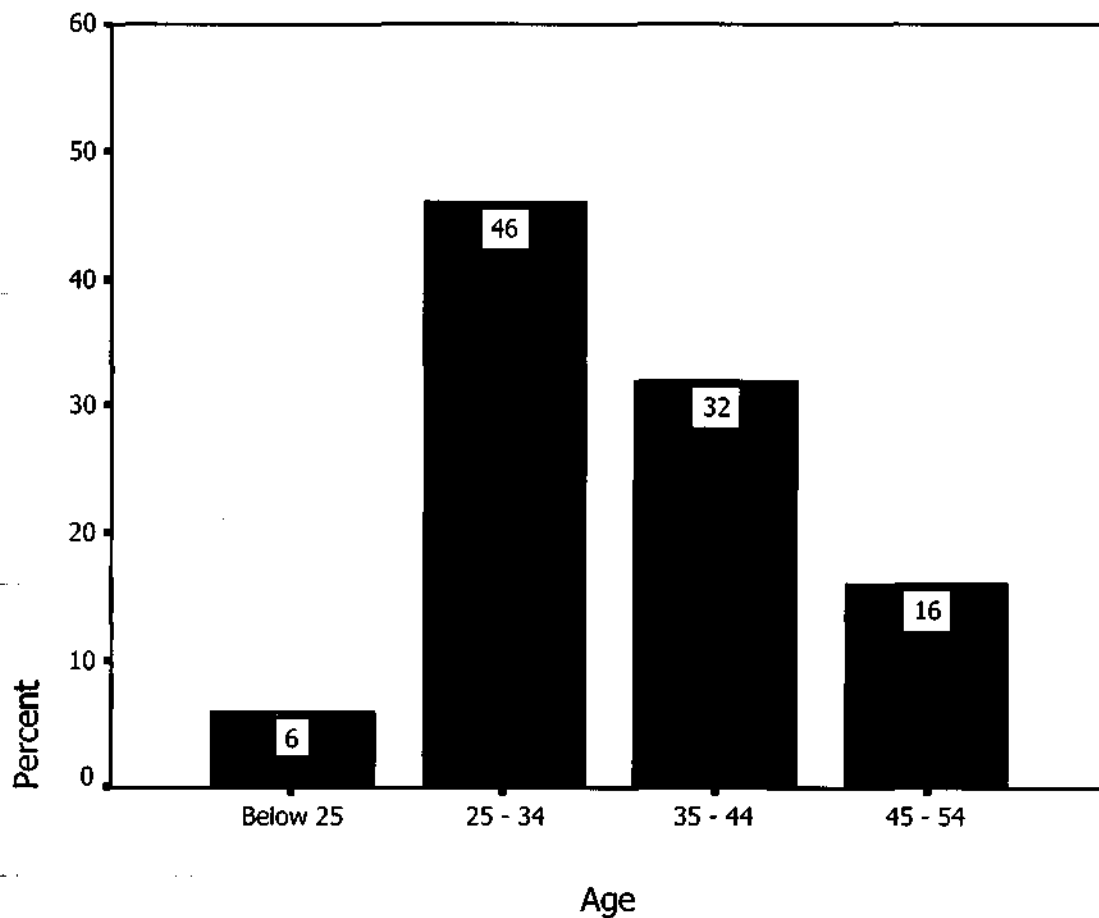


Figure 6.2. indicates that 62% of respondents were male and only 38% were female. This is a result of the fact that the institutional structure has a higher proportion of male employees.

Figure 6.3.

**Q:3**      ***Distribution of sample by age.***



Staff members aged between 25 and 34 constituted 46% of the participants in this study while those below 25 years old constituted only 6% and only 32% were between 35 and 44 years old. The older staff members' ages ranged between 45 and 54 years old (16%).

Figure 6.4.

**Q:4**      ***Distribution of sample by income.***

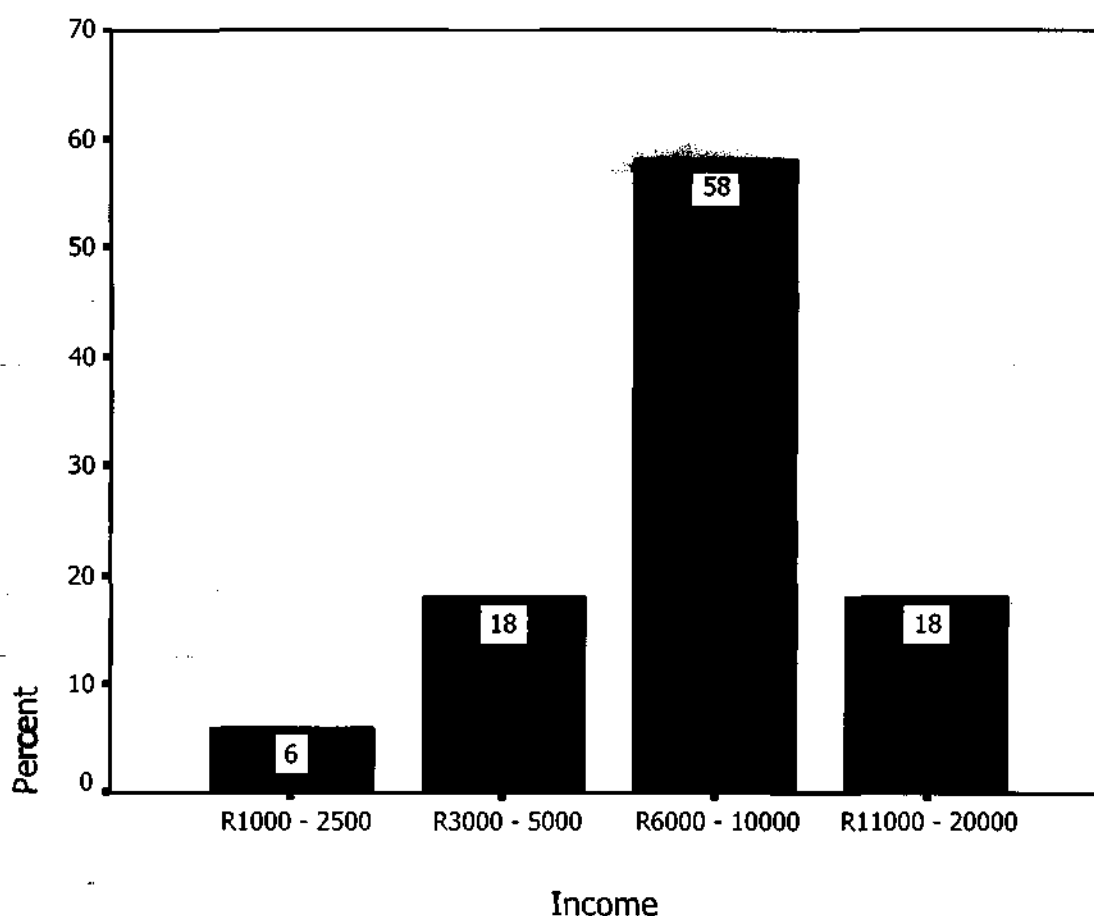


Figure 6.4 indicates that 58% of respondents who participated in this study were earning between R6 000 to R10 000 per month. Staff members earning between R3 000 to R5 000 per month and R11 000 to R20 000 per month represented 18% of respondents in each case. Staff members earning below R2 500 per month constituted less than 6%.

Figure 6.5.

**Q:5**      ***Distribution of sample by educational qualification.***

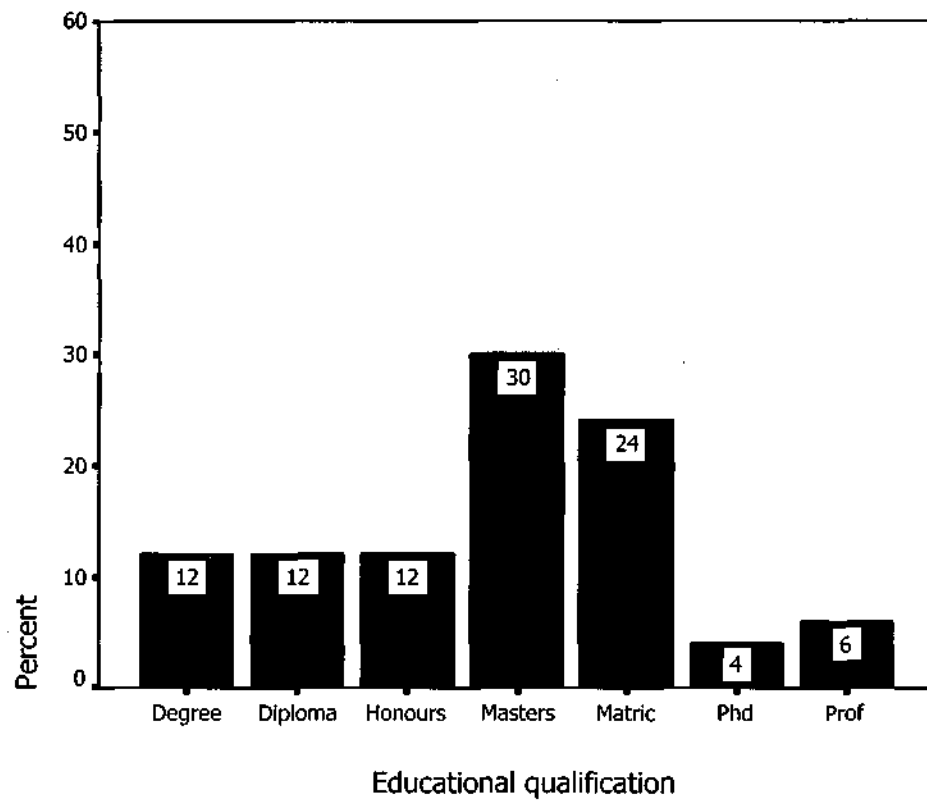
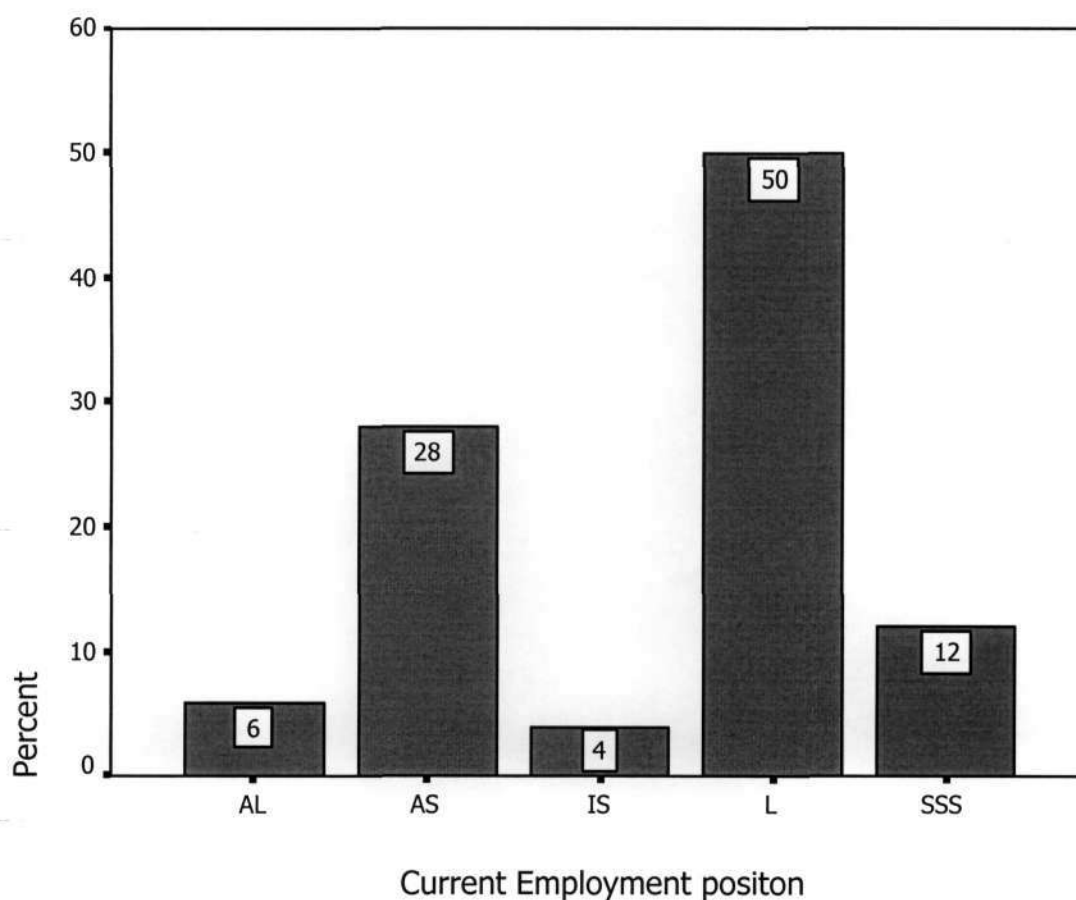


Figure 6.4 indicates that 12% of respondents who participated in this study had a Bachelors degree, 12% a Diploma, 12% had Honours degrees, 30% had a Masters, 24% were Matriculants, 4% had a Phd and 6% a Professorship.

**Figure 6.6.**

**Q:6**      *Distribution of sample by position in the institution.*



The sample was divided into two categorized groups, these being composed of Academic and Non-academic staff. Figure 6.6 indicates that 28% were academic support staff, 6% Associate lecturers, 4% Institutional support staff, 50% were Lecturers, and 12% were Student support staff at the University of Durban Westville.

**Figure 6.7.**

**Q:7** *Distribution of sample by Marital Status.*

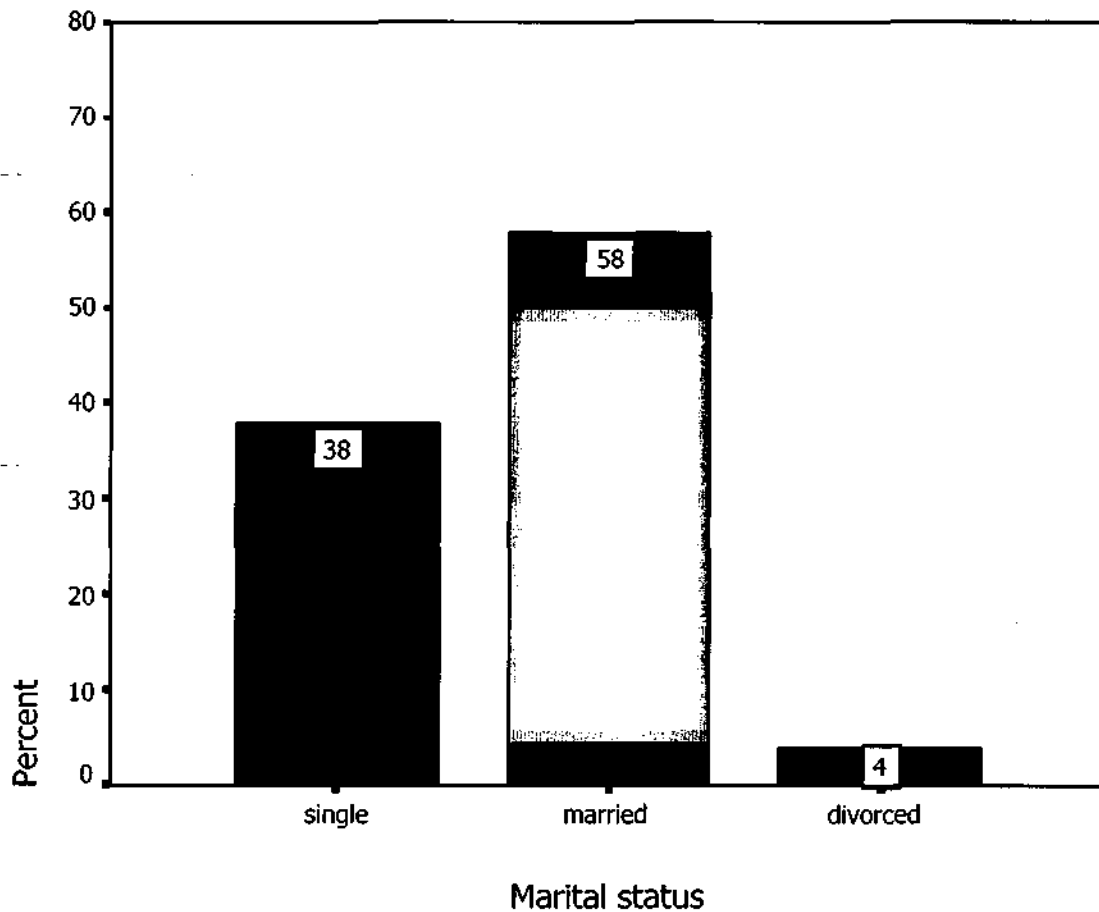


Figure 6.7 indicates the marital status of the University's staff members. The majority of the respondents were married (58%). The graph further indicates that 38% were single and only 4% were divorced. None of the respondents in this sample were separated.

### 6.2.2. Factual aspects of Life Assurance Policy' ownership.

**Figure 6.8.**

**Q:8**      *Do you own a life assurance policy / policies?*

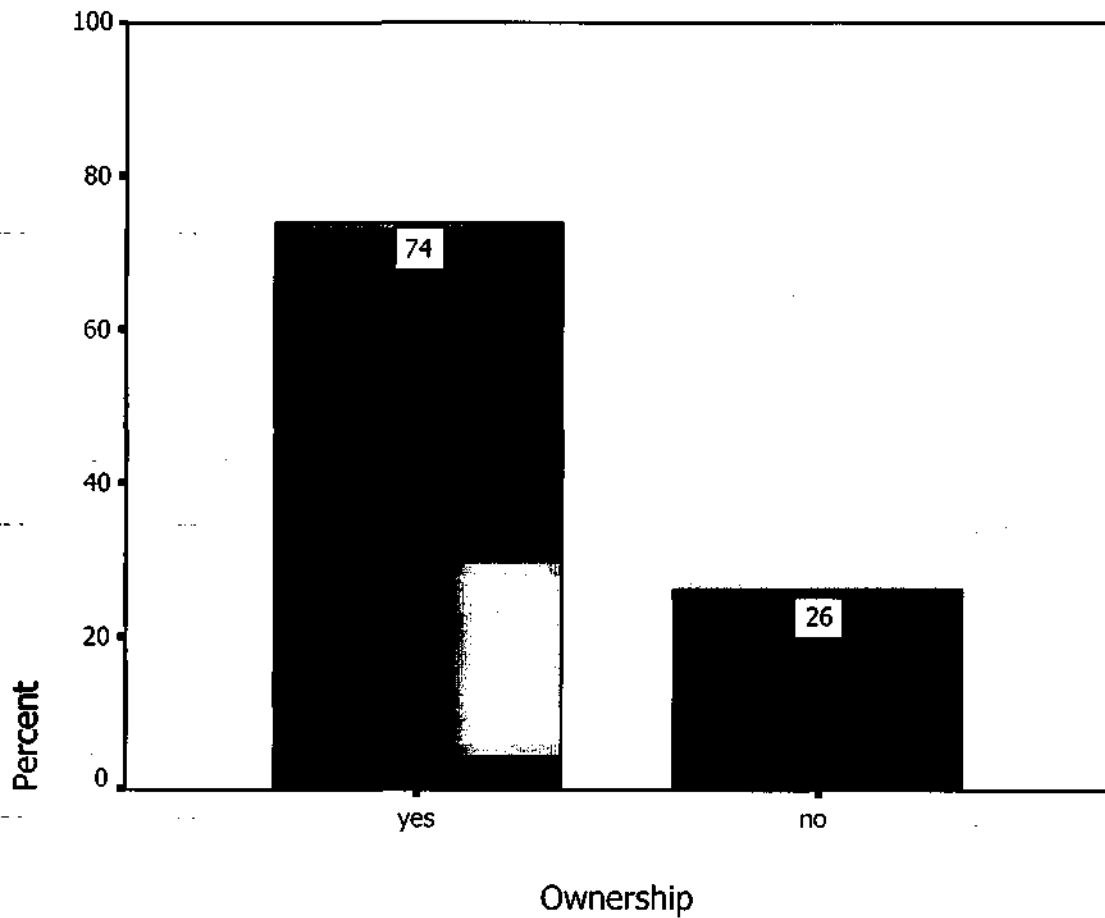
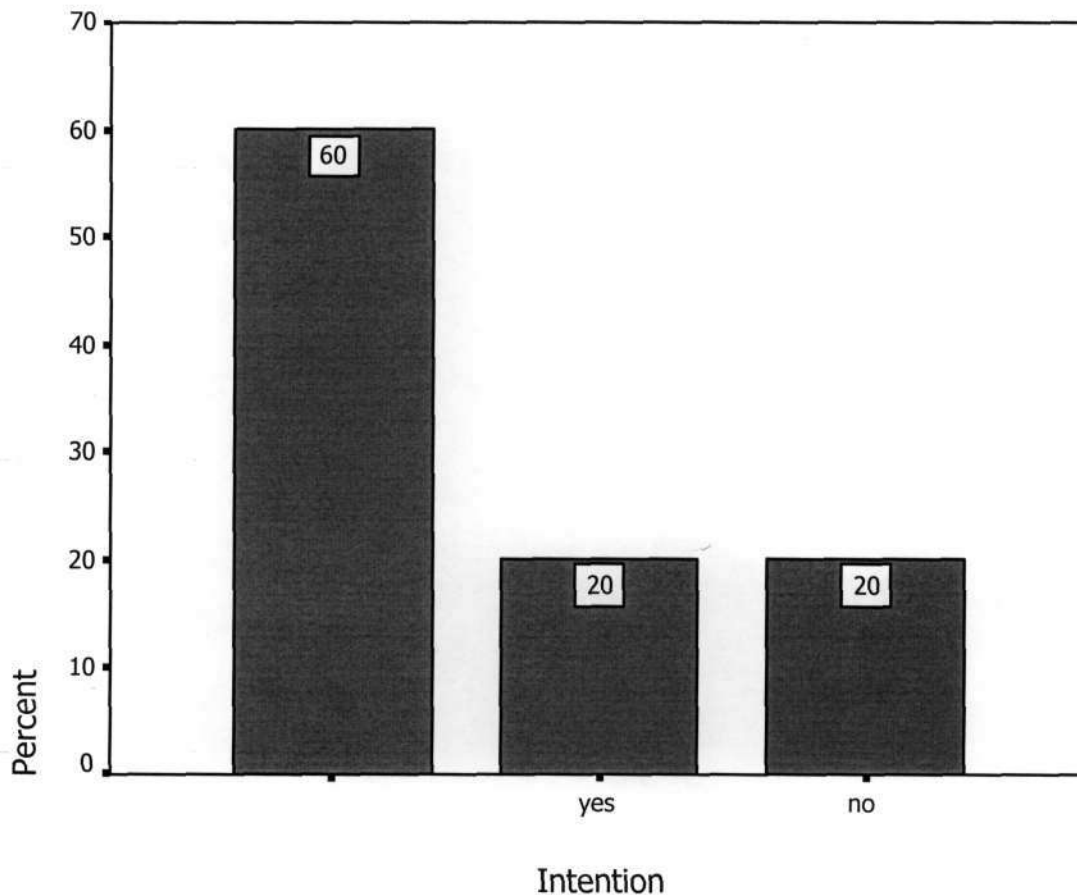


Figure 6.8 indicates that 74% of staff members own life assurance policies while only 26% did not have life assurance policy.



**Figure 6.9.**

**Q: 8.1**      *Do you intend taking out a life assurance policy?*



Twenty percent of the 26% without life assurance policies indicated their intention to take out life assurance policy while 20% indicated they had no such intention. Sixty percent did not answer this question because the majority (74%) answered "yes" to question 8 and they would have proceeded to question nine.

**Figure 6.10.**

**Q:9**

***Did you find it difficult to go through the process of taking out a policy?***

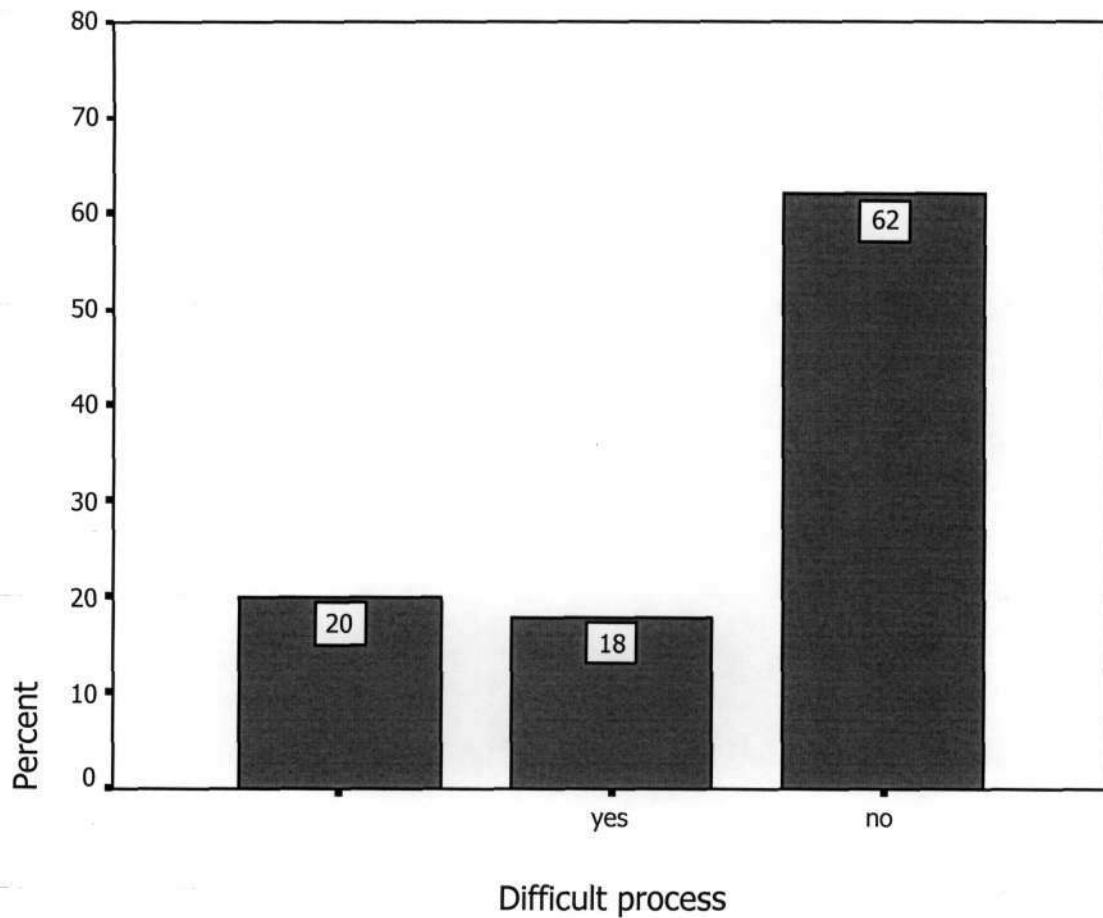
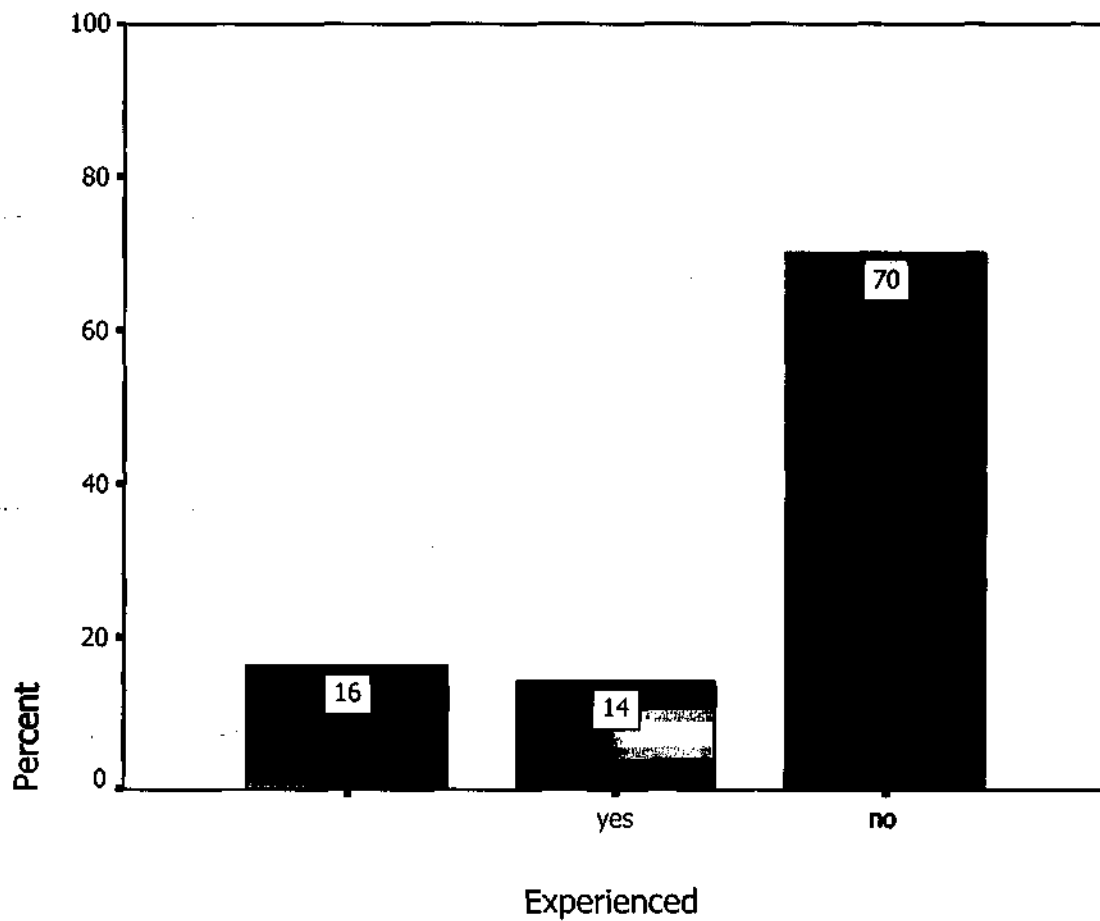


Figure 6.10 indicates that there 62% of respondents answered "No", they did not find it difficult to go through the process of taking out a policy while 18% did encounter difficulty with the process. The problems can be attributed to the lack of simple explanation about policy details and technical concepts when filling in the forms. The twenty percent figure denotes those who do not have life assurance policies.

**Figure 6.11.**

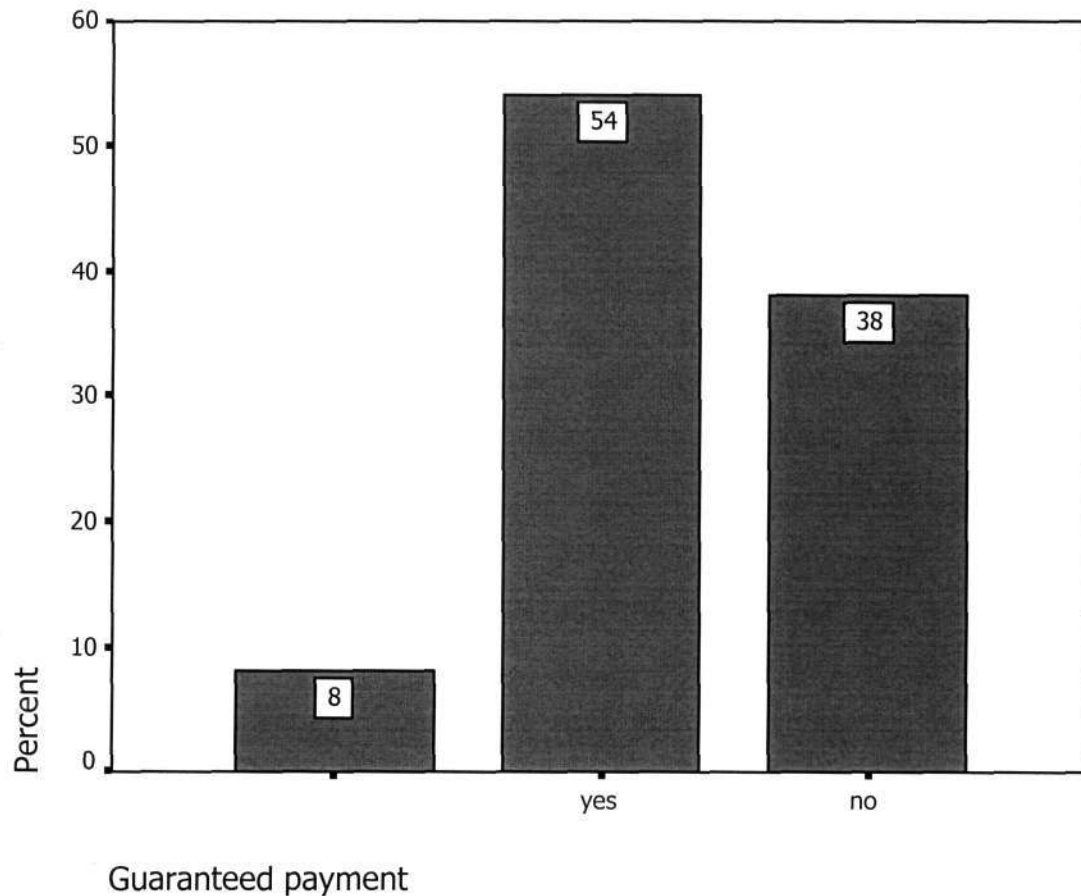
**Q:10**      *Have you experienced any problems with your assurance company?*



The majority of respondents (70%) experienced no problems with their life assurance company while only 14% answered "Yes" to having experienced problems. Sixteen percent of respondents did not answer the question.

**Figure 6.12.**

**Q:11**      *Do you think assurance premiums are worth  
the guaranteed payment on maturity date?*



The majority (54%) thought life assurance premiums are worth the guaranteed payment (with only marginal appreciation) on maturity date. Thirty – eight percent thought premiums are not worth the guaranteed payment on maturity date. Only 8% did not answer the question.

**Figure 6.13.**

**Q:12**      ***Do you regard the life assurance industry as adding value to personal savings through long-term investment?***

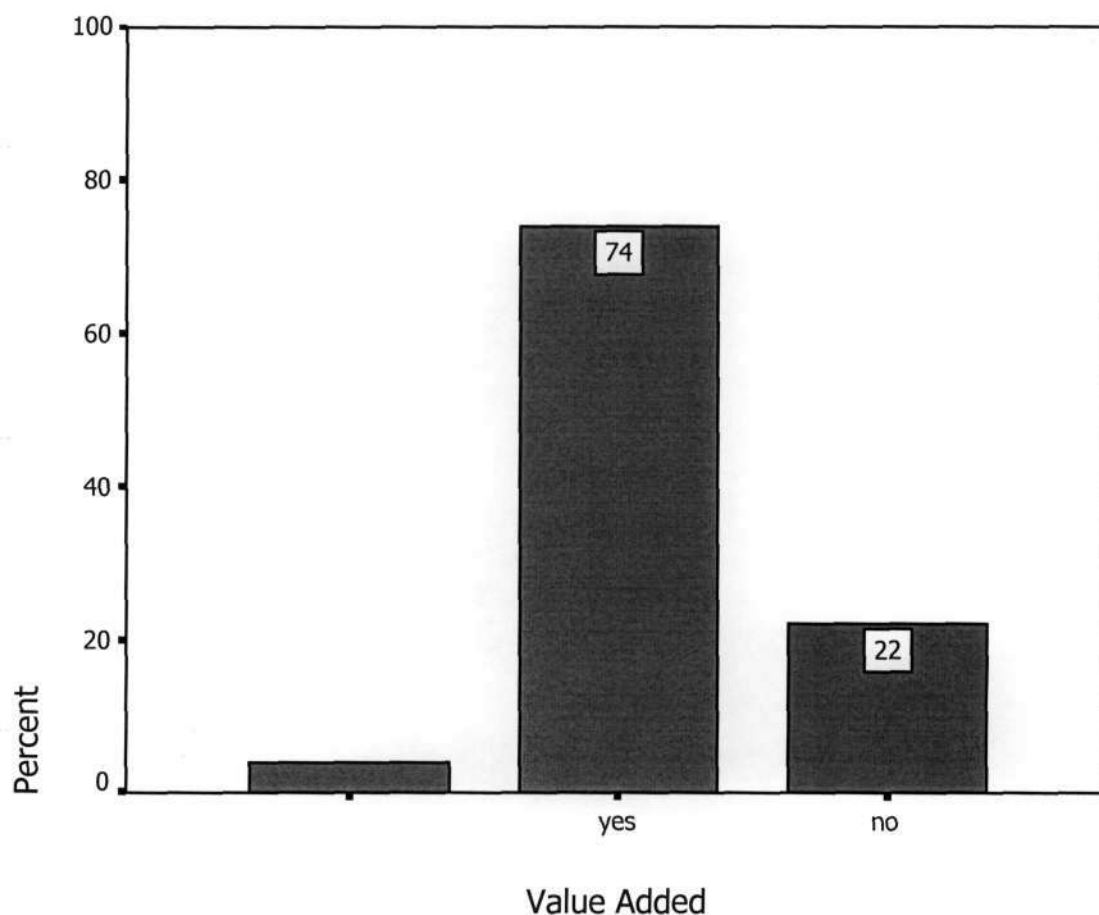
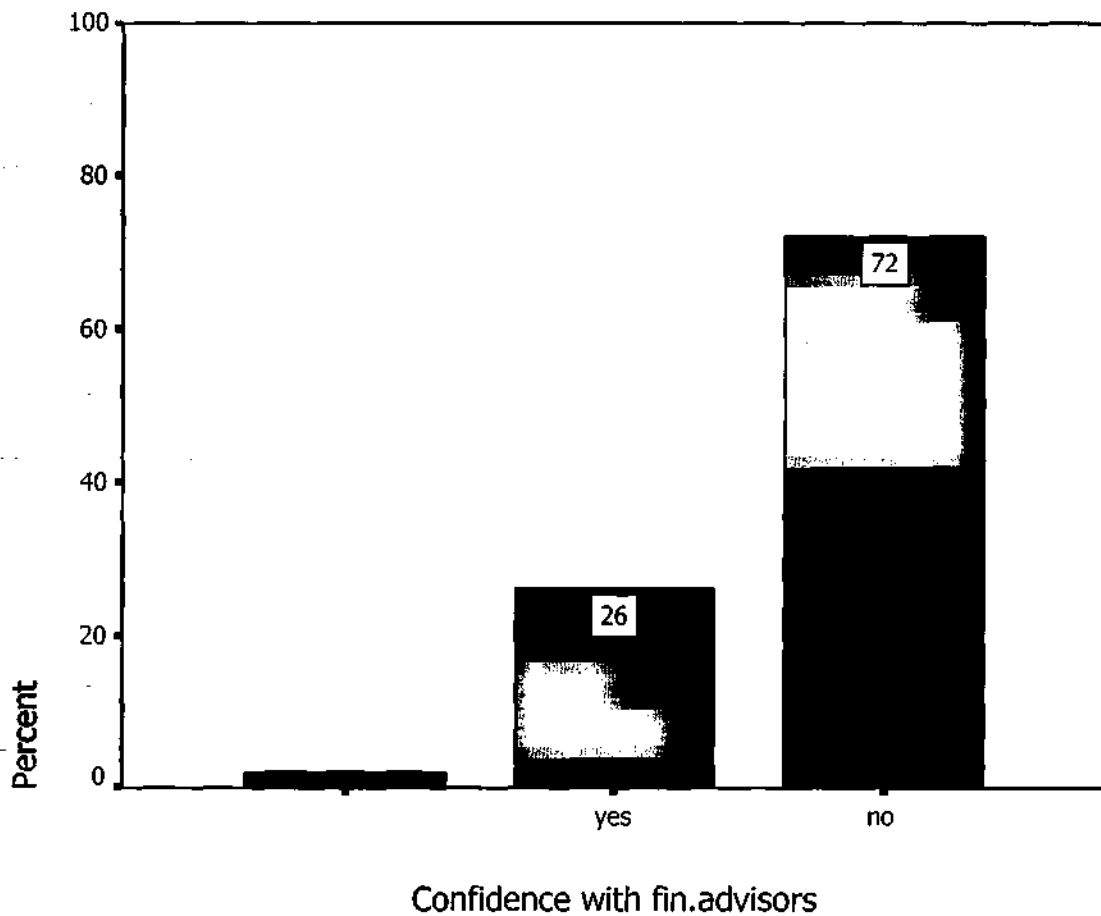


Figure 6.13 indicates value added to personal saving through long-term investment. The greater percentage (74%) answered "Yes" to the question whether the life assurance industry can be regarded as adding value to personal savings through long-term investment. Twenty – two percent answered "No" and 4% did not answer the question.

**Figure 6.14.**

**Q: 13**      *Do you have confidence in financial advisors selling life assurance policies?*

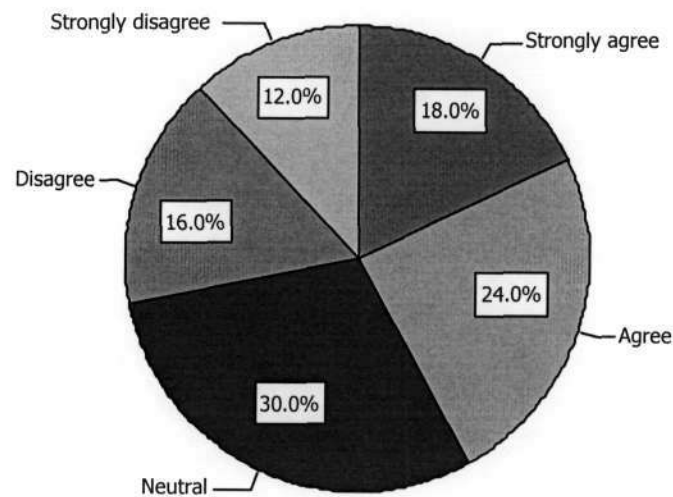


The majority (72%) showed no confidence in financial advisors selling life assurance policies. A smaller percentage (26%) indicated confidence in financial advisors and 2% did not answer the question.

### 6.2.3. Attitudes toward Life Assurance.

**Figure 6.15.**

**Q:14**      ***People who fail to take out life assurance are irresponsible.***



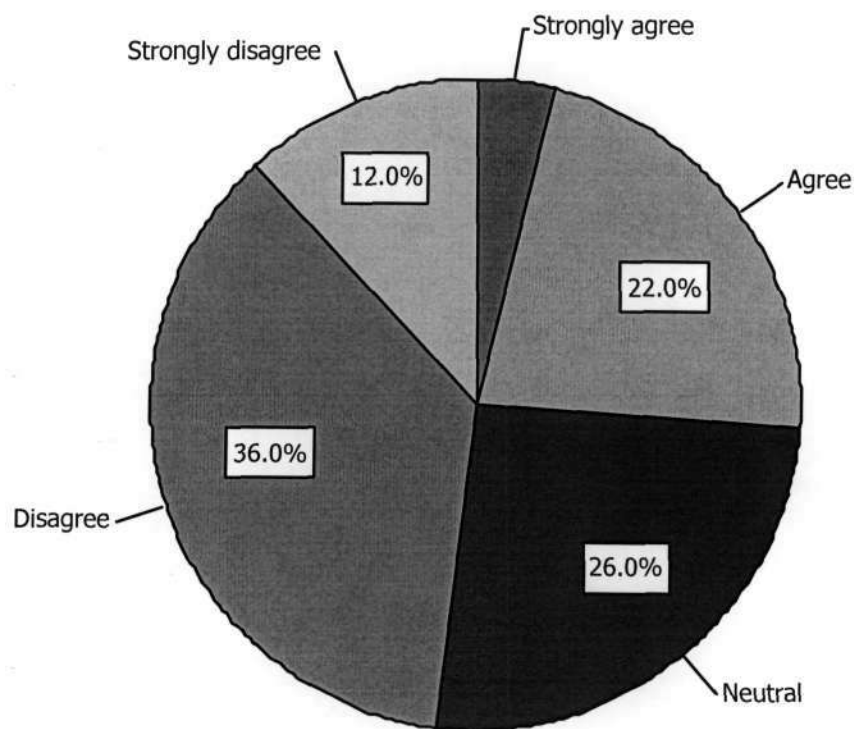
Irresponsible people

Figure 6.15 indicates that 18% "Strongly agreed" that people who fail to take out life assurance are irresponsible. A further 24% of the respondents "agreed" that people without life assurance policies are irresponsible. This brings the total to 42% of the respondents who agree that people who fail to take out life assurance are irresponsible. A total of 28% "disagreed" with this statement while 30% of respondents were "Neutral".

**Figure 6.16.**

**Q:15**

***I consider current life policies outdated and inappropriate for modern times.***



Outdated life policies

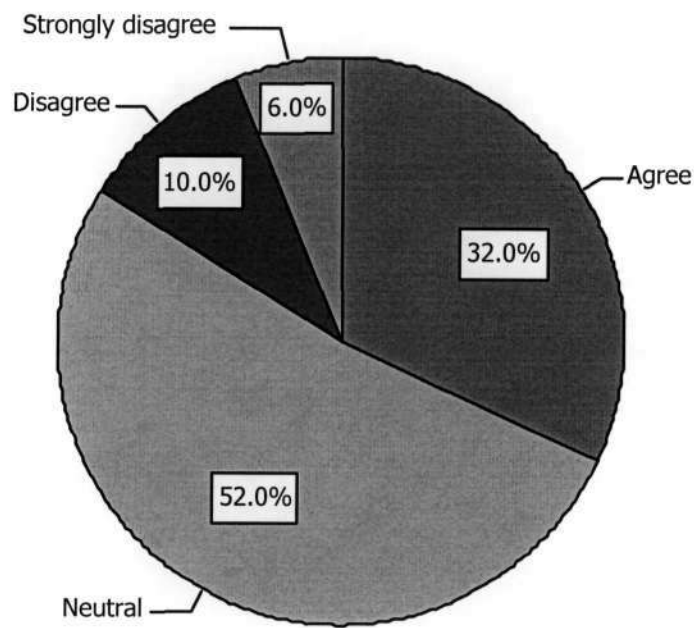
Figure 6.16 indicates that 4% "strongly agree", 22% "Agree", 26% are "Neutral", 36% "Disagree" and 12% "Strongly disagree". A total of 48% "disagreed" that current life policies are outdated and inappropriate for modern times.



**Figure 6.17.**

**Q:16**

***People are very satisfied with Life Assurance service provision.***



Service Provision

Figure 6.17 indicates that the majority (52%) of the respondents were "Neutral" on the question of Life assurance service provision. Only 32% "Agreed" and a total of 16% stated that they were very dissatisfied with life assurance service provision. Therefore, the majority of the respondents are uncertain about service provision from life assurance.

**Figure 6.18.**

**Q:17**      ***Financial Advisors display and provide a professional service to the client.***

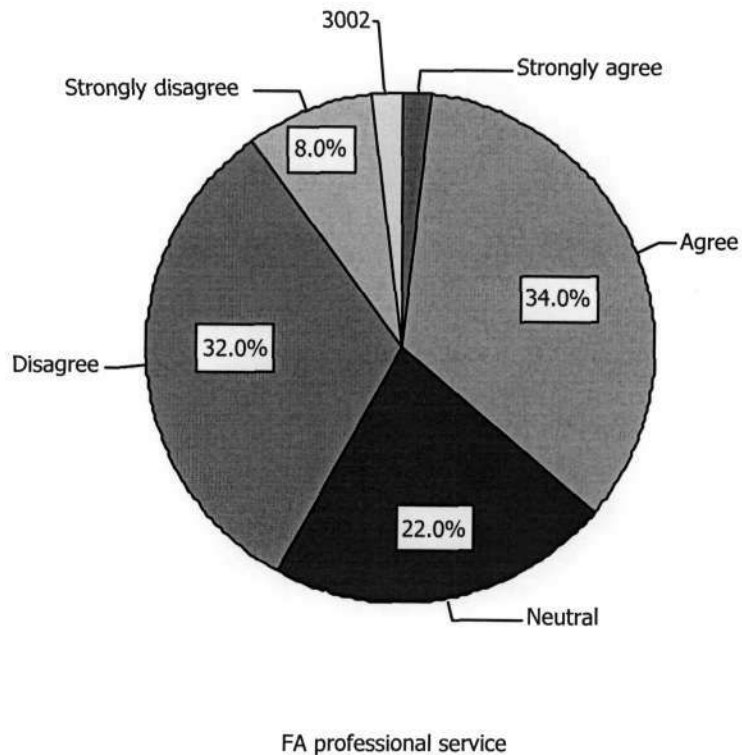
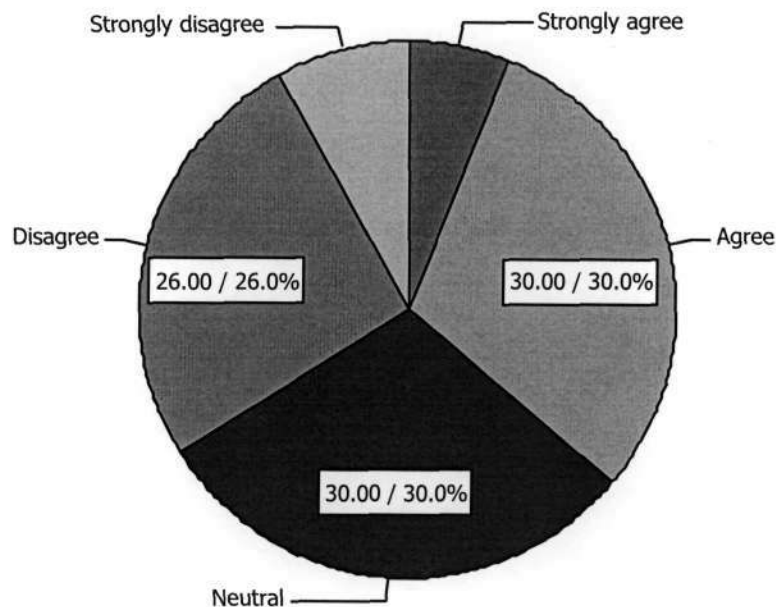


Figure 6.18 indicates that 2% "strongly agree", 34% "Agree", 22% are "Neutral", 32% "disagree" and 8% "Strongly disagree". A total of 36% of the respondents agreed and a further total of 44% of the respondents disagreed that financial advisors display and provide a professional service to the client.

**Figure 6.19.**

**Q:18**      ***Life assurance companies are giving information and advice to consumers.***



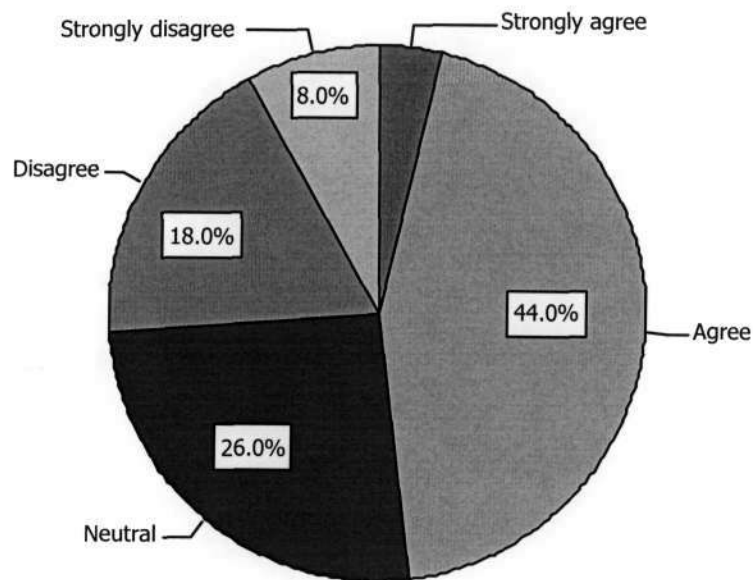
**Information and advice to consumers**

Figure 6.19 indicates that 6% "strongly agree", 30% "agree", 30% are "Neutral", 26% "Disagree" and 8% "Strongly disagree". A total of 36% of the respondents agreed that the information is properly disseminated. A total of 34% of the respondents disagreed that Life assurance companies are giving information and advice to consumers in an effort to ensure clients make prudent insurance decisions. Only 30% were "Neutral" regarding this statement.

**Figure 6.20.**

**Q:19**

***I find Life Assurance premiums affordable in respect of my income.***



**Affordability**

Figure 6.20 indicates that 4% "strongly agree", 44% "agree", 26% are "neutral", 18% "disagree" and 8% "strongly disagree". Consequently, a relatively high percentage of respondents find Life Assurance premiums affordable in respect of their income.

**Figure 6.21.**

**Q:21** *I seldom think of discontinuing paying my Life Assurance policy at the first signs of financial hardships.*

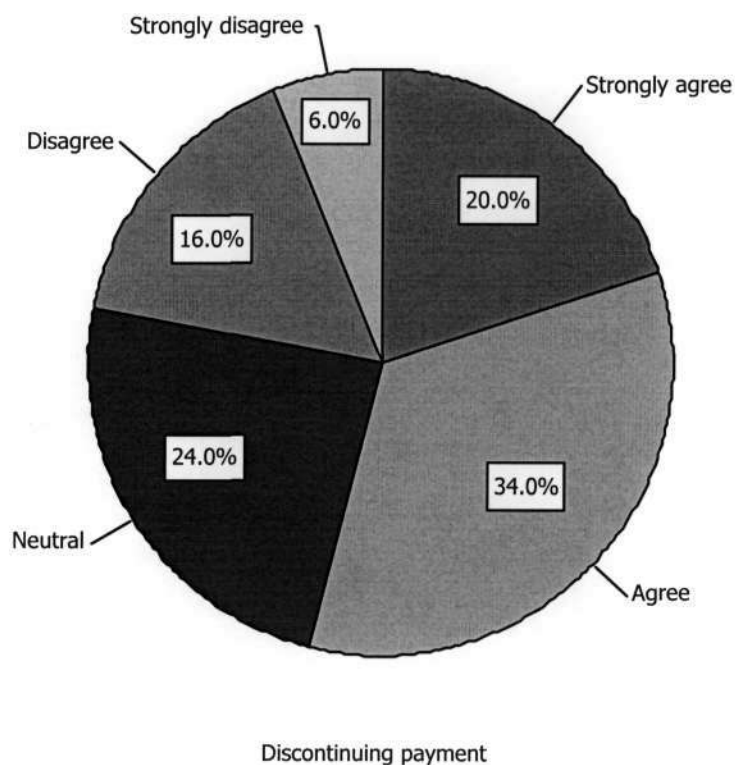


Figure 6.21 indicates that a total of 54% of the respondents agreed that they seldom think of discontinuing paying their Life assurance policy at the first signs of financial hardship. However, 22% disagreed that they seldom think of discontinuing paying their life assurance policy at the first signs of financial hardship. Only 24% were "Neutral" regarding this statement.

**Figure 6.22.**

**Q: 21**

***I seldom feel the need to have a life assurance policy.***

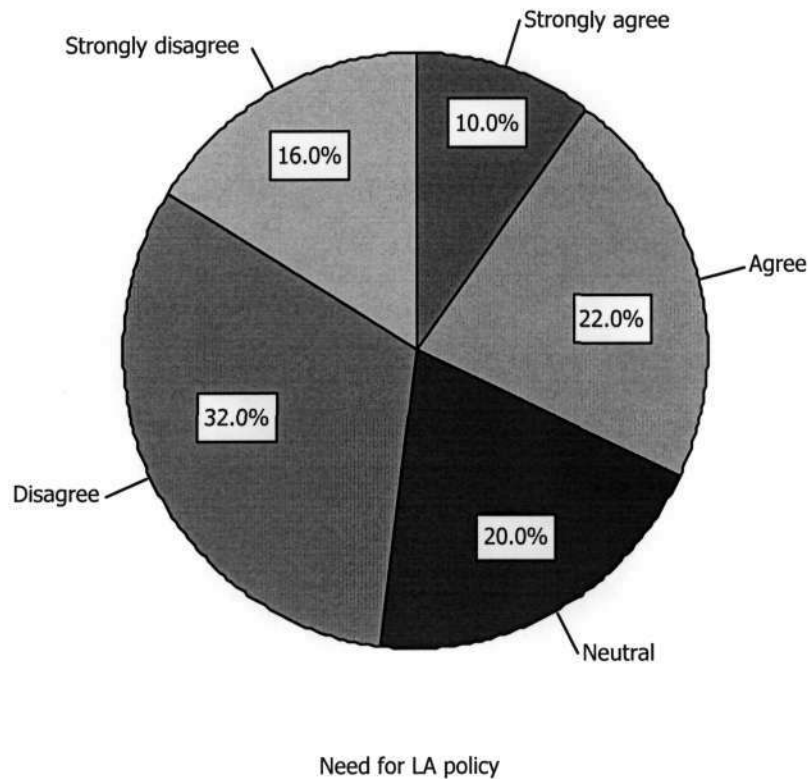
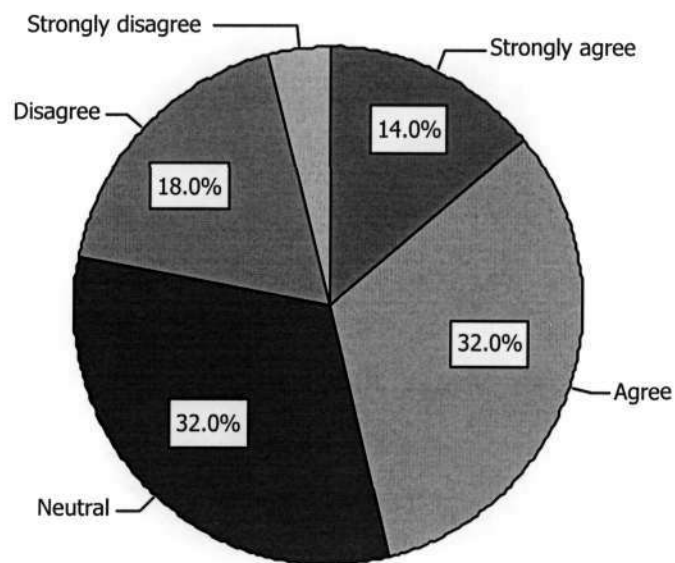


Figure 6.22 indicates that 10% "Strongly agree", 22% "Agree", 20% are "Neutral", 32% "Disagree" and 16% "Strongly disagree". A total of 32% of the respondents agreed that they seldom perceive the need to have a Life Assurance policy while a total of 48% disagreed with this statement.

**Figure 6.23.**

**Q: 22** *I find Life Assurance industry's policies difficult to understand.*



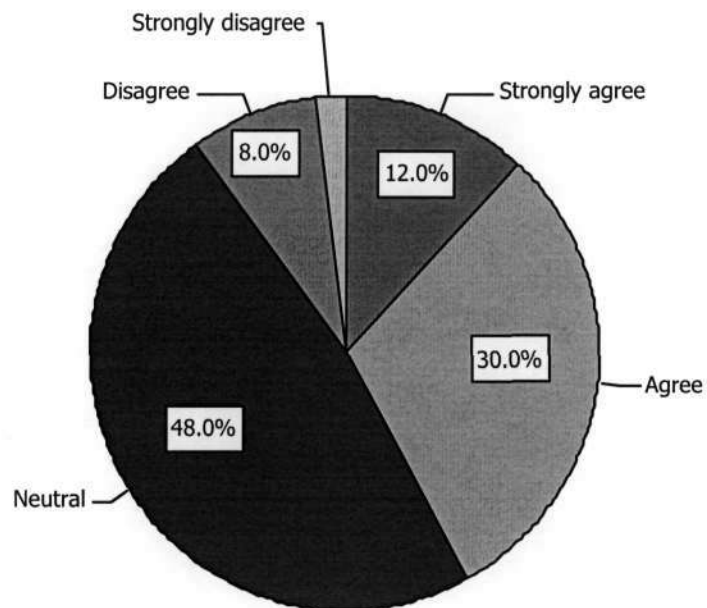
Difficult to understand policies

Figure 6.23 indicates that a total of 46% of the respondents agreed that Life Assurance industry's policies are difficult to understand. However, 22% disagreed that life assurance policies are not understandable. A further 32% of respondents were "Neutral".

**Figure 6.24.**

**Q: 23**

***The New government regulations will improve the transparency in Life Assurance industry.***



Improve transparency

Figure 6.24 indicates that 12% of the respondents "Strongly agree" and a further 30% "Agree". Whilst 48% of the respondents were "Neutral", 8% "Disagree" and only 2% "Strongly disagree". A total of 42% of the respondents agreed that the new government regulations will improve the transparency in LA industry.



**Figure 6.25.**

**Q:24**

***Life Assurance is a necessary evil in the South African situation.***

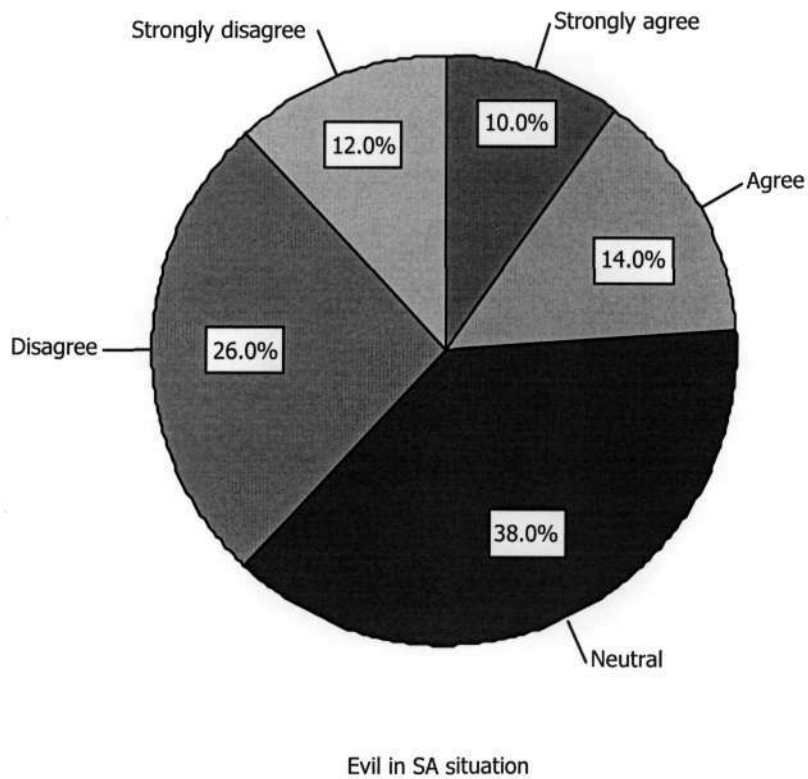
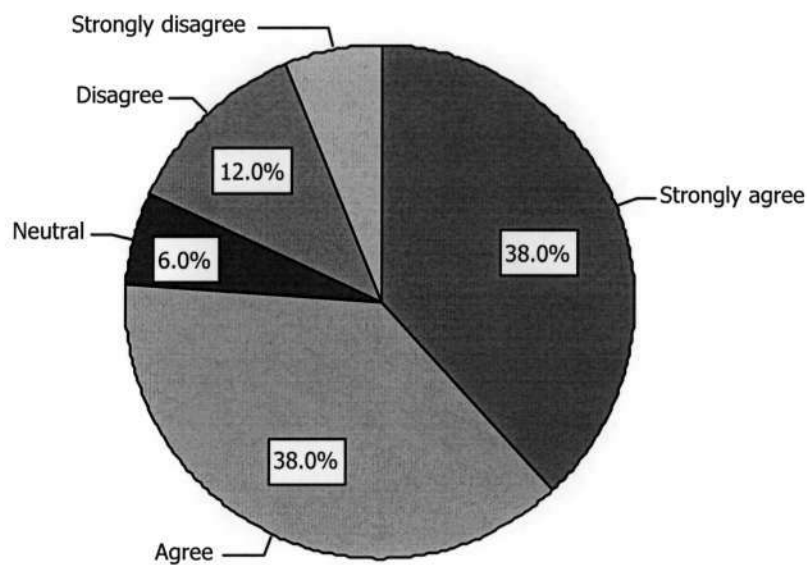


Figure 6.25 indicates that 10% "Strongly agree", 14% "Agree", 26% "Disagree", 12% "Strongly disagree" and a higher percentage (38%) of the respondents were "Neutral" on the issue of whether Life Assurance is a necessary evil in the South African situation.

**Figure 6.26.**

**Q:25**      ***Taking out Life Assurance is the only effective way of saving my family from poverty in the event of my death.***



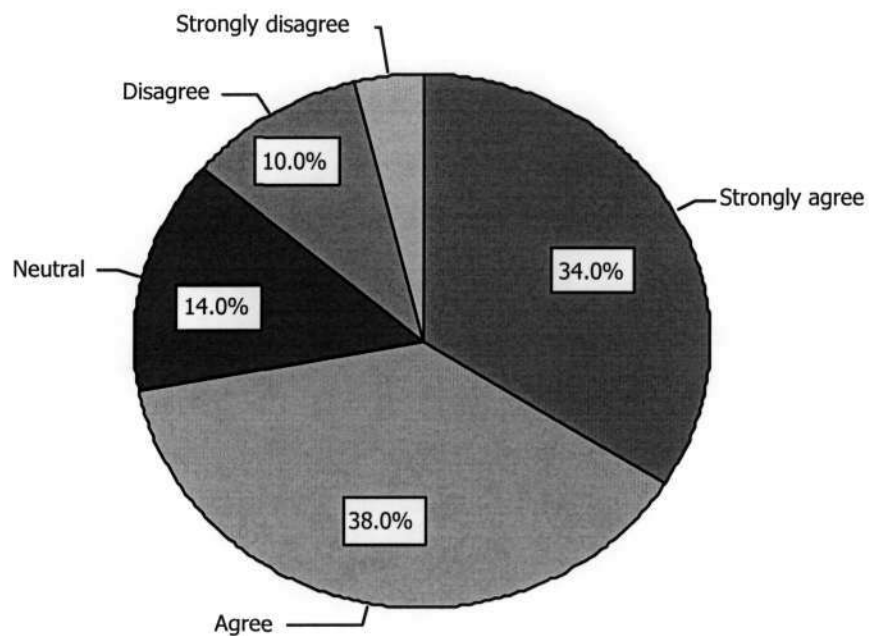
Effective way of Saving

Figure 6.26 indicates that the majority of the respondents did in fact acknowledge Life Assurance as the only effective way of saving for their family. A total of 76% of the respondents "agreed" that taking out Life assurance is the only effective way of saving their family from poverty in the event of the respondent's death. However, 18% "disagreed" that life assurance is the only effective way of saving their family from poverty.

#### 6.2.4. Attitudes towards purchasing Life Assurance on the basis of Corporate Social Responsibility reputation.

**Figure 6.27.**

**Q: 26**      ***Life Assurance company's ethical reputation influences my evaluations and purchase intentions.***



#### Evaluations and Purchasing Intention

Figure 6.27 indicates that a total of 72% of the respondents agreed that life assurance company's ethical reputation influences their evaluations and purchase intentions. However, 14% disagreed that a company's ethical reputation influences their evaluations and purchase intentions. A further 14% of respondents were "neutral".

**Figure 6.28.**

**Q: 27**

***A life assurance company's reputation for social responsibility influences my decision in buying its life assurance policies.***

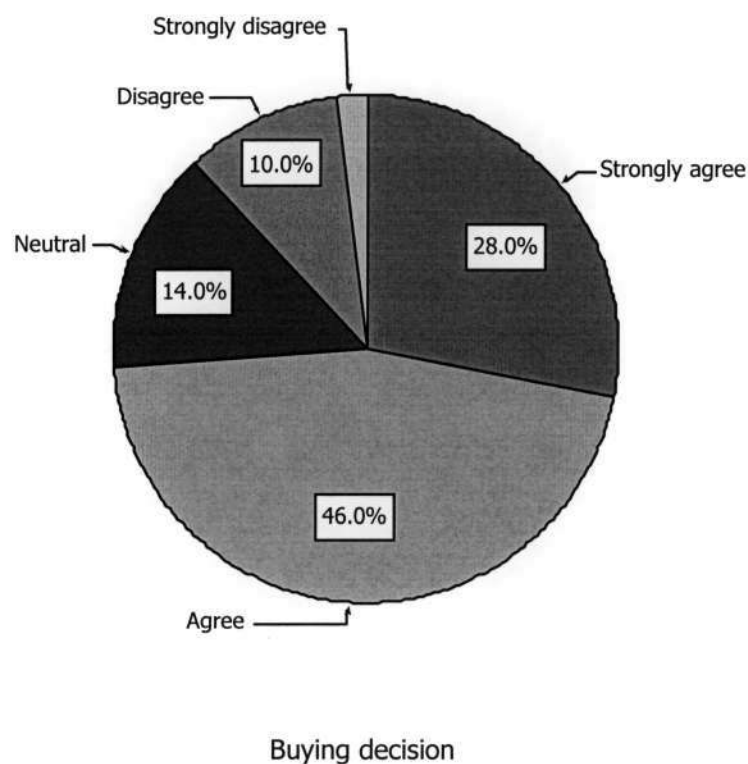


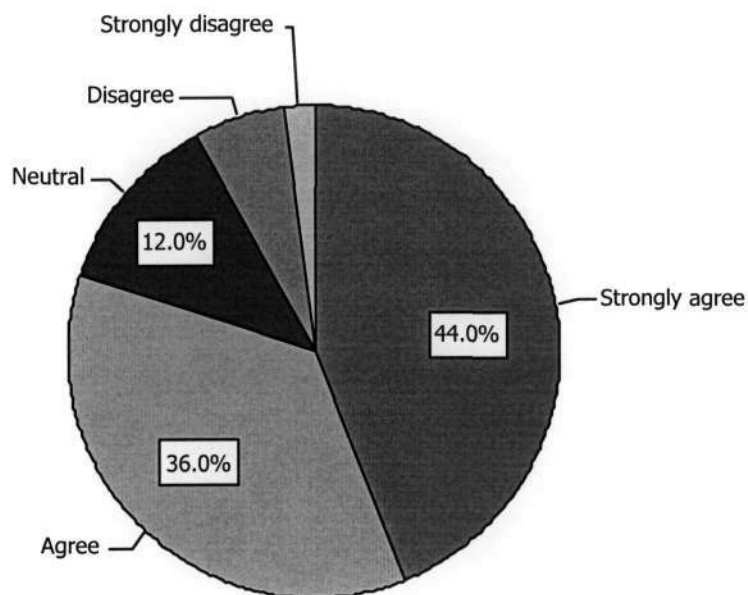
Figure 6.28 indicates that a total of 74% of the respondents agreed that life assurance company's reputation for social responsibility influences their decision in buying its life assurance policies. However, 12% disagreed that life assurance company's reputation for social responsibility influences their decision. A further 14% of respondents were 'Neutral'.

**Figure 6.29.**

**Q: 28**

***Generally I do not purchase Life Assurance policies from a company I regard as having a poor ethical record.***

Poor ethical record



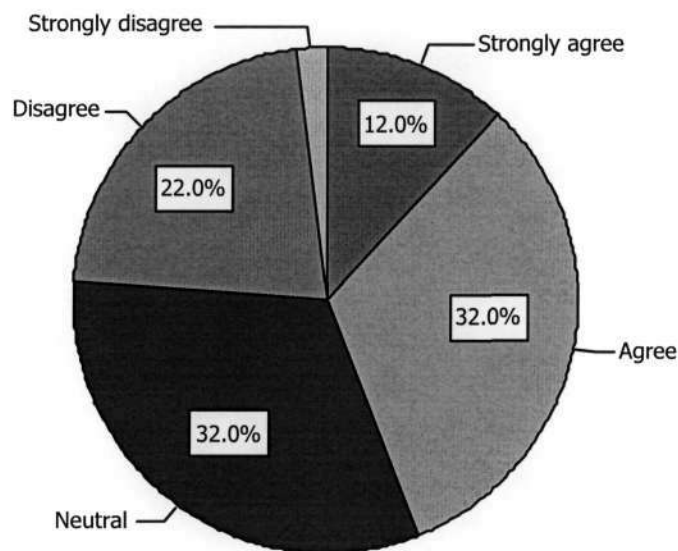
Poor ethical record

Figure 6.29 indicates that a total of 80% of the respondents agreed that they did not purchase Life Assurance policies from company they regarded as having a poor ethical record. However, 8% disagreed that a poor ethical record has an influence on their decision. A further 12% of the respondents were "Neutral".

**Figure 6.30.**

**Q: 29**

***The quality of a Life Assurance company's products is more important than its spending in social upliftment in my decision to purchase its policies.***



Spending on Social Upliftment

Figure 6.30 indicates a total of 44% of the respondents agreed that the quality of life assurance company's products is more important than its spending in social upliftment in their decision to purchase its policies. However, 34% disagreed with this idea. A further 32% of the respondents were "Neutral".

**Figure 6.31.**

**Q: 30**      ***The strength of a company's reputation for being involved in the community has a direct bearing on whether or not I buy its life assurance policy.***

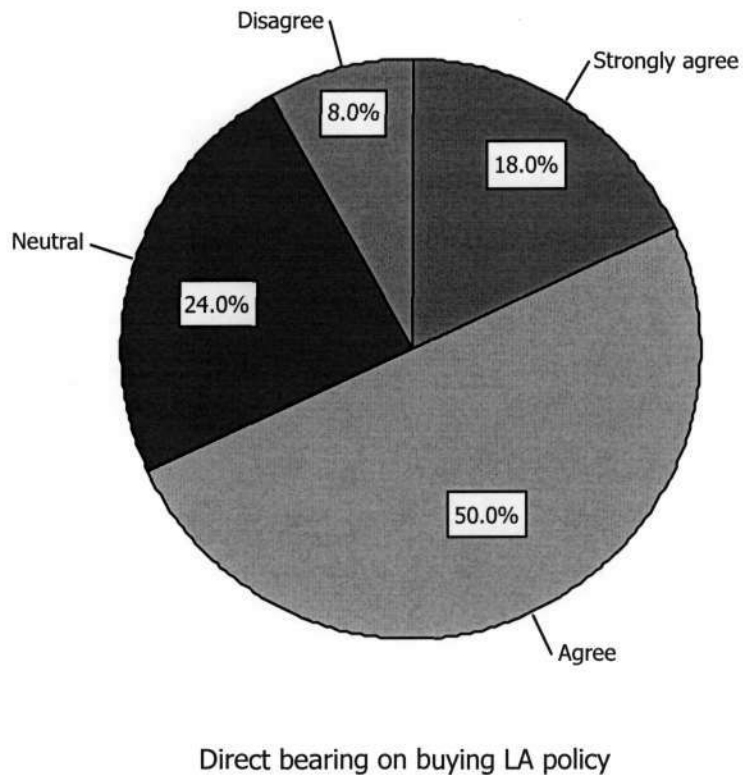


Figure 6.31 indicates that a total of 68% of the respondents agreed that the strength of a company's reputation for being involved in the community has a direct bearing on whether or not they buy its Life Assurance policy. However, 8% disagreed with this statement. A further 24% of the respondents were "Neutral".

**Figure 6.32.**

**Q: 31**      ***A Life Assurance company with a good financial performance but poor social responsibility performance does not stop me buying its products.***

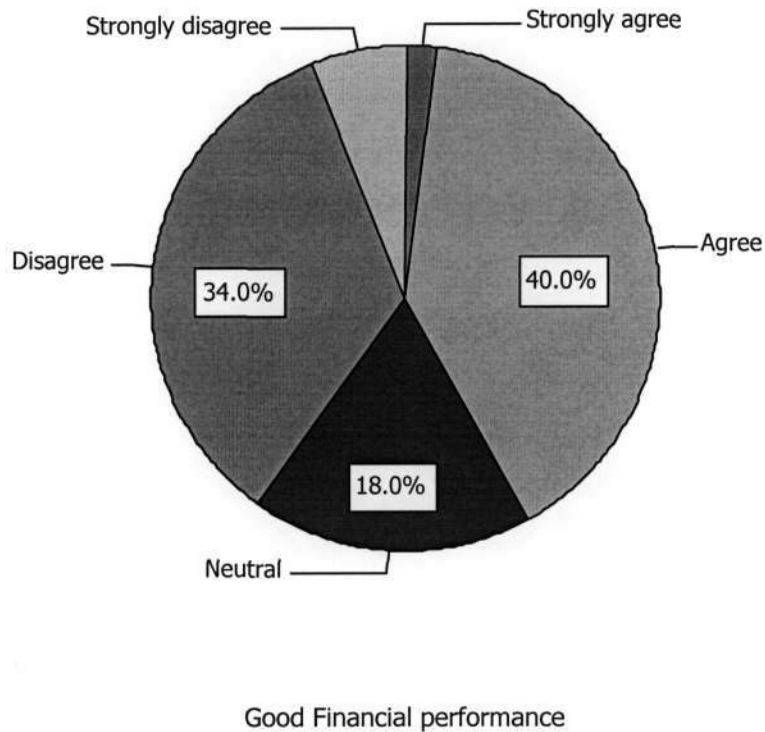


Figure 6.32 indicates that a total of 42% of the respondents agreed that a life assurance company with a good financial performance but poor social responsibility performance does not stop them buying its products. However, 42% disagreed that a company with poor social responsibility performance can stop them buying company's products. A further 18% of the respondents were "Neutral".



**Figure 6.33.**

**Q: 32**      ***When I buy life assurance policies I always first check to see if the ethical record of the company is acceptable.***

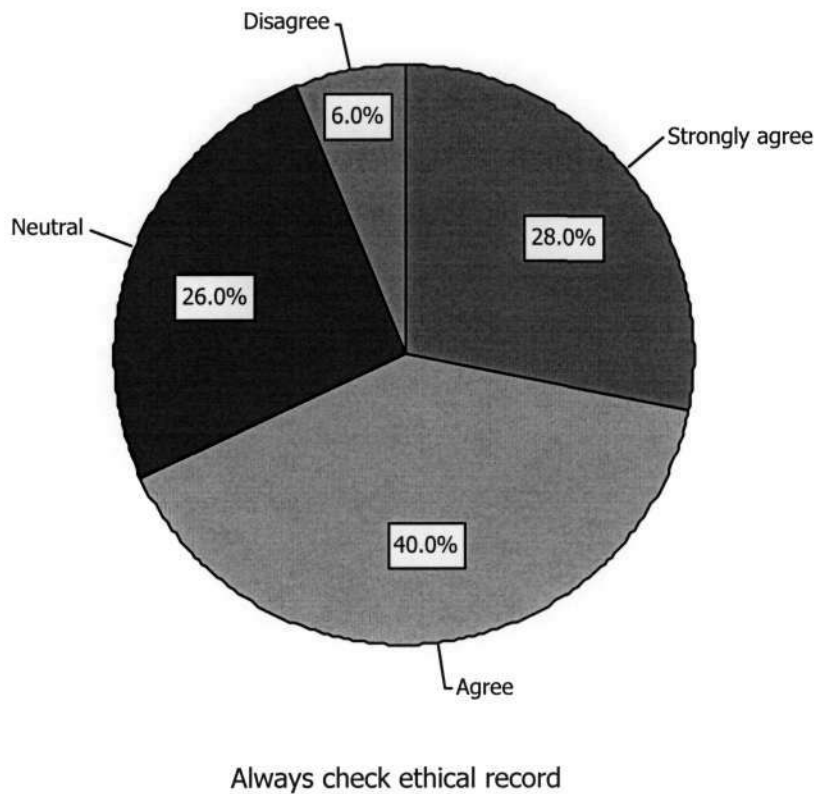
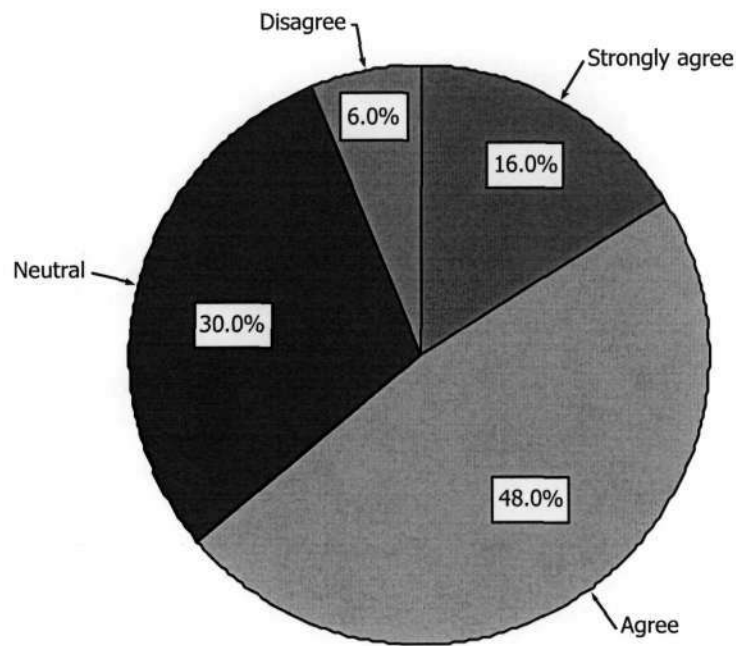


Figure 6.33 indicates that a total of 68% of the respondents agreed that they always first check the ethical record of the company. However, 6% disagreed that they always first check to see if the ethical record of the company is acceptable. Only 26% were "Neutral" regarding this statement.

**Figure 6.34.**

**Q: 33**      ***A Life Assurance company's reputation for being socially responsible always sways my purchasing decisions towards its products offering over any other similar product.***



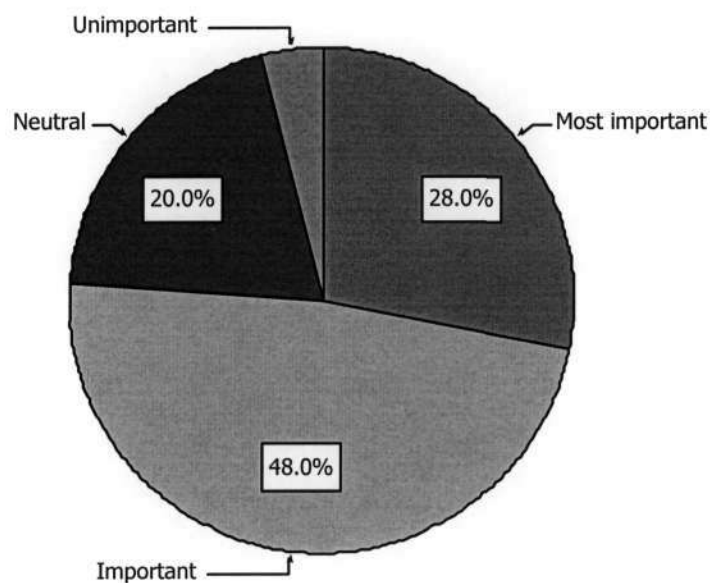
Always sways purchasing decisions

Figure 6.34 indicates that a total of 64% of the respondents agreed that a life assurance company's reputation for being socially responsible always sways their purchasing decisions towards its product offerings over any other similar product. However, 6% disagreed that life assurance company's reputation for being socially responsible always sways their purchasing decisions. A further 30% of the respondents were "Neutral".

## 6.2.5. Important provisions in the Life Assurance Act.

**Figure 6.35.**

**Q: 34**      *The requirement for stringent product development.*



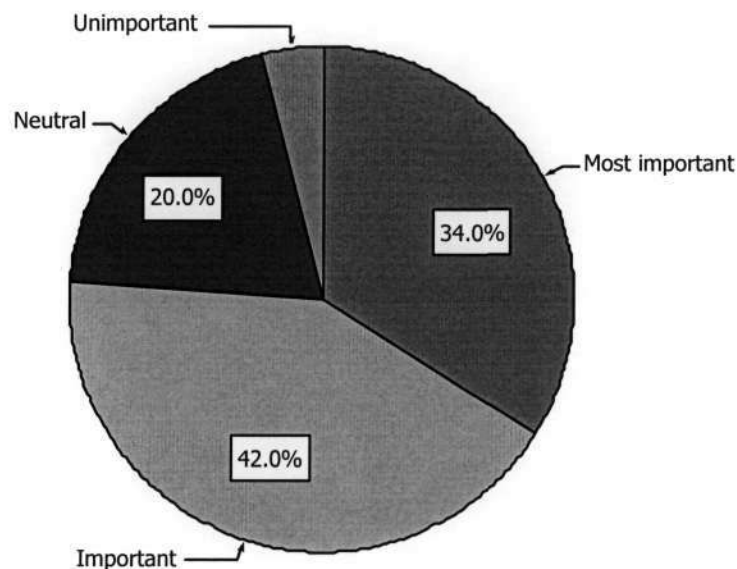
Stringent product development

Figure 6.35 indicates that a total of 76% of the respondents agreed that the requirement for stringent product development is important. Four percent of the respondents find the requirement for stringent product development unimportant. A further 20% of the respondents were "Neutral".

**Figure 6.36.**

**Q: 35**

***The new regulations regarding the discussion of payment limitations for Financial Advisors.***

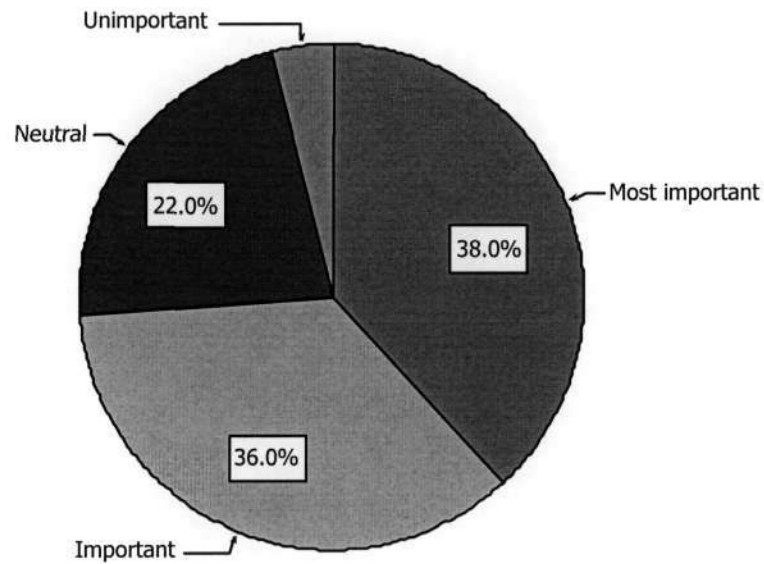


Payments limitations for FA

Figure 6.36 indicates that a total of 76% of the respondents agreed that the new regulations regarding the discussion of payment limitations for financial advisors are important. However, 4% disagreed with this statement. A further 20% of the respondents were "Neutral".

**Figure 6.37.**

**Q: 36**      ***The ombudsman is independently and objectively advised about customer complaint.***

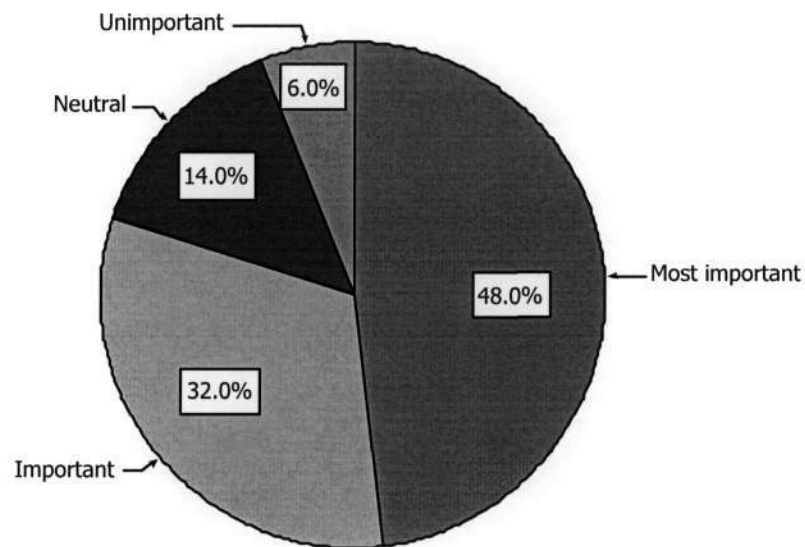


Ombudsman's independence and objectivity

Figure 6.37 indicates that a total of 74% of the respondents agreed that the ombudsman is independently and objectively advised about customer complaints. A further 22% of the respondents were "Neutral".

**Figure 6.38.**

**Q: 37**      ***The stringent conditions for the registration of financial advisors.***

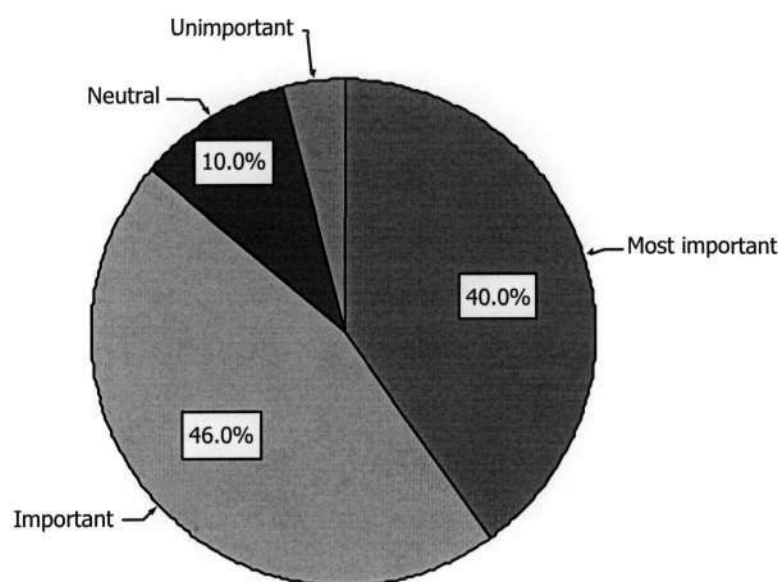


Registration of FA

Figure 6.38 indicates that a total of 80% of the respondents agreed that the stringent conditions for the registration of financial advisors are important. However, 6% disagreed that the stringent conditions for the registration of financial advisors are important. A further 14% of the respondents were "Neutral".

**Figure 6.39.**

**Q: 38**      ***The requirement for specific corporate governance regarding offerings of life assurance companies in the life assurance sector.***



Specific Corporate Governance

Figure 6.39 indicates that a total of 86% of the respondents agreed that the requirement for specific corporate governance regarding offerings of life assurance companies is important. However, 4% disagreed with this statement. A further 10% of the respondents were "Neutral".

## **6.3. Factor analysis**

Factor Analysis enables us to examine the underlying relationships for a large number of variables and combine them into a smaller set of composite factors. Hair (2003) describes factor analysis as a statistical technique that develops linear combinations of variables that summarize the original variables based on the underlying patterns (for example, latent relationships). The factor analysis is most useful with a large number of variables. The goal of factor analysis in this study is to reduce large number variables to as few dimensions or constructs as possible.

### **Reliability Assessment:**

Nunnally's (1978) rule of thumb for the inclusion of a dimension is a minimum Alpha of 0.7. The remaining 25 items were subjected to an internal reliability analysis using the computer programme SPSS. Cronbach Alpha values reported of the construct are measured by an instrument with sufficient reliability ( $\alpha > 0.7$ ) and that the Cronbach Alpha of the entire instrument is 0.7205. This figure concurs with the minimum of 0.7 suggested by Nunnally (1978) and confirms the reliability of the instrument

#### **6.3.1. Factors describing attitudes towards purchasing Life Assurance on the basis of CSR reputation.**

Factor analysis was then performed on the 20 items that constitute the 8 dimensions. Table 6.1 (Appendix) indicates KMO (.577) and Bartlett's test of sphericity, which does not show the suitability of the data because the closer the KMO is to one, the more useful the analysis may be. However, the significance level gives the results of the test, the fact that the significance level is very small (0.000) indicates that there are relationships among the variables.



## Principal Component Method of Factor Extraction

The principal component analysis was used with all three kinds of variance (error variance, unique variance and common variance) to derive the factor solutions. The procedure reduces the original set of variables into a smaller set of composite variables, called principal components.

The objective is to explain as much of the original variance in the data set as possible by a few principal components. Each of the new components would represent a separate composite factor. The latent root is a measure of the amount of variance a particular factor represents (Hair, 2003). This criterion states that with principal components analysis factors that have a latent root (also known as Eigenvalue) of one or higher are retained. Factors with a latent root of less than one are considered insignificant and not retained. The total variance accounted for by all the factors should be more than 60% and the rotated factors should be able to be assigned a logical name.

**Table 6.2          Total Variance Explained using the Principal Component Method of Factor Extraction.**

<b>Component</b>	<b>Initial Eigenvalues</b>		
	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>
<b>1</b>	<b>1.988</b>	<b>24.845</b>	<b>24.845</b>
<b>2</b>	<b>1.786</b>	<b>22.325</b>	<b>47.171</b>
<b>3</b>	<b>1.704</b>	<b>21.294</b>	<b>68.464</b>

Table 6.2 shows that 3 factors accounted for 68.464% of the variance in the original 8 variables.

The percentage is exceeding minimum amount of variance and variables have been reduced from the number of original variables from 8 to 3. Factor 1 accounts for variance that is 35.210%, factor 2 accounted for 19.329% of variance and factor 3 for 13.925% of variance. Table 6.2 indicates that all three factors returned Eigenvalues above the customary cut-off point of one. These results provide at least some evidence of the factorial discriminant validity of the measuring instrument.

### **The Rotated Component Matrix:**

The names of the 8 variables analysed are shown in the left column. The order of the variables is based on the sizes of the individual variable loadings on the factors. The largest loadings are at the top of the column and they get smaller as you go to the bottom of the column of loadings. It is easier to interpret the factor solution, if factor loadings under .30 in the factor matrix are not shown. It is also easier to pick out any problems with simple structure once this option is selected (that is, suppress less than 0.3 factor loadings). The right of the variables labels are columns of numbers representing the factor loadings for a three-factor solution. The objective is to have as few factors as possible, yet account for a reasonable amount of the information contained in the 8 original variables.

### **Naming of the factors:**

The logic of naming the factors must be more easily supportable and theoretically sound. However, the ultimate goal is to derive a set of factors that are theoretically meaningful, relatively easy to interpret, and account for as much of the original variable as possible. The process of naming factors is subjective and it combines logic and intuition with an assessment of the variables that have high loadings on each factor (Hair, 2003). Therefore, factor one is related to 'Ethical profile', factor two is related to "Purchasing decision" and factor three is related to "Business performance".

**Table 6.3: Rotated Component Matrix**

<b>Variable</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>
Poor ethical record	.860		
Check acceptability	.802		
Purchasing intention		.700	
Buying decisions		.637	
Social spending		.775	
Direct bearing		.454	
Financial performance			.813
Change Decision			.763

**The factors are described as follows:**

**Factor 1**

Table 6.5 shows that the variables that loaded onto this factor describe the acceptability of ethical record before taking a decision to purchase the life assurance company's products. People believed that ethical records should be acceptable. The factor is named Ethical Profile.

**Factor 2**

The variables that loaded onto this factor described the life assurance company's ethical reputation, which has a bearing on purchasing intention. The factor is named Purchasing decision.

**Factor 3**

The variable that loaded onto this factor describes a life assurance company's reputation for being socially responsible swaying people's purchasing decisions. Consumers have propensity to react on an unsatisfactory company's social responsibility reputations by not purchasing its products. This factor also indicates that the financial performance of the company is an important aspect of buying a particular insurance product. The factor is named Financial performance.

**The following diagram depicts the names of the factor:**

**Table 6.4: Naming of Factors**

<b>Factor 1</b>	Poor ethical record	<b>Ethical profile</b>
	Check acceptability	
<b>Factor 2</b>	Purchasing intention	<b>Purchasing decision</b>
	Buying decisions	
	Social spending	
	Direct bearing	
<b>Factor 3</b>	Financial performance	<b>Financial performance</b>
	Change decision	

### 6.3.2. Factors analysis on Attitudes towards Life Assurance

Factor analysis was performed on the 20 items that constitute the 12 dimensions. The closer the KMO to one, the more useful the analysis may be. The KMO score of (0.629) obtained in this factor analysis is useable. The significance level gives the results of the test, the fact that the significance is small (0.001), indicated that there are significance relationships among the variables.

#### Reliability Assessment:

Cronbach Alpha values show that the constructs are measured by an instrument with sufficient reliability and that the Cronbach alpha of the entire instrument is 0.7205. This figure concurs the minimum of 0.7 suggested by Nunnally (1978) as a rule of thumb and it confirms the reliability of the instrument.

**Table 6.5. Total Variance Explained**

<b>Component</b>	<b>Initial Eigenvalues</b>		
	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>
<b>1</b>	<b>2.975</b>	<b>24.790</b>	<b>24.790</b>
<b>2</b>	<b>1.946</b>	<b>16.217</b>	<b>41.006</b>
<b>3</b>	<b>1.450</b>	<b>12.080</b>	<b>53.086</b>
<b>4</b>	<b>1.331</b>	<b>11.088</b>	<b>64.174</b>

The Principal Components Method of factor extraction and the Varimax Method of rotation were used. The four factors that were extracted account for 64.174% of the variance. Factor 1 accounts for 24.790%, factor 2 accounts for 16.217% of the variance, factor 3 accounts for 11.080% and factor 4 accounts for 12.080% of variance.

Table 6.5 shows that 4 factors accounted for 64.174% of the variance in the original 12 variables. The percentage is exceeding minimum amount of variance and variables have been reduced from the number of original variables from 12 to 4. Table 6.5 indicates that all four factors returned Eigenvalues above the customary cut-off point of one. These results provide at least some evidence of the factorial discriminant validity of the measuring instrument.

### **The Rotated Component Matrix:**

The names of the 12 variables analysed are shown in left column. It is easier to interpret the factor solution, if factor loadings under .30 in the factor matrix are not shown. To the right of the variable labels are columns of numbers representing the factor loadings for a four-factor solution. The objective is to have as few factors as possible, yet account for a reasonable amount of the information contained in 12 original variables.

### **Naming of the factors:**

The logic of naming the factors must be more easily supportable and theoretically sound. The process combines logic and intuition with an assessment of the variables that have high loadings on each factor. Factor one is related to "Service provision", factor two is related to "Regulations", factor three is related to "Product Clarity and Modernity" and factor four is related to "Security".

**Table 6.6. Rotated Component Matrix**

<b>Variable</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>
<b>Information and advice</b>	<b>.805</b>			
<b>FA professional service</b>	<b>.780</b>			
<b>Satisfied service provision</b>	<b>.713</b>			
<b>Affordability</b>	<b>.663</b>			
<b>Improve transparency</b>		<b>.899</b>		
<b>Evil in SA situation</b>		<b>.882</b>		
<b>Discontinuing payment</b>			<b>.894</b>	
<b>Irresponsibility</b>			<b>.546</b>	
<b>Outdated and inappropriate</b>			<b>.496</b>	
<b>Difficult to understand</b>			<b>.433</b>	
<b>Need for life assurance</b>				<b>.686</b>
<b>Effective saving</b>				<b>.879</b>

**Factors are described as follows:**

**Factor 1**

Table 6.6 indicates that the variables loaded onto this factor describe service provision by the company as professional, yet Life Assurance premiums are affordable in respect of clients' income. The factor is named as Service provision.

**Factor 2**

The variables that loaded onto this factor describe the South African situation and new regulations that can improve transparency in the Life Assurance industry. The factor is named as Regulations.

**Factor 3**

The variables that loaded onto this factor describe problems of product being outdated and inappropriate for modern times and they find the life assurance industry's policies difficult to understand. The factor is named as Product clarity and modernity.

**Factor 4**

The variables that loaded onto this factor describe the importance of Life Assurance as an effective way to save and there is a need for life assurance policy because people without Life Assurance are perceived as irresponsible. The factor is named as Security.

**The following diagram shows the naming of factors:**

**Table 6.7: Naming of Factors**

<b>Factor 1</b>	Information and advice	<b>Service provision</b>
	FA professional service	
	Service provision	
	Affordability	
<b>Factor 2</b>	Improve transparency	<b>Regulations</b>
	Evil in South Africa	
<b>Factor 3</b>	Discontinuing payment	<b>Product clarity and modernity</b>
	Irresponsibility	
	Outdated and inappropriate	
	Difficult to understand	
<b>Factor 4</b>	Need for LA	<b>Security</b>
	Effective saving	



## 6.4. Factor means.

The matrix of frequencies of response to the 50 constructs on the five-point Likert Scale was subjected to correspondence analysis. The distances were then used to recreate the interval scale ranging from 1 to 5. This technique enables statistical manipulation and valid statistical interpretation of inherently ordinal data by converting it into interval data (Bendixen and Sandler, 1995). The rescaled mean ratings of the 12 statements are presented in table 6.7.

**Table 6.8. Mean ranking of responses to items on the attitudes towards Life Assurance (N=50)**

Rank	Item	Mean	Std. Deviation
1	Effective way of saving family from poverty	2.10	1.216
2	Discontinuing to pay premium at the first signs of financial hardship	2.54	1.164
3	Life assurance industry policies are difficult to understand	2.66	1.062
4	People who fail to take out life assurance are irresponsibility	2.80	1.262
5	People find LA premiums affordable in respect of their income	2.82	1.044
6	People are very satisfied with LA service provision.	2.90	0.814
7	New regulations will improve the transparency of the LA' operations	2.96	1.106
8	LA companies are giving Information and advice to consumers	3.08	0.986
9	FA display and provide a professional service to clients	3.10	1.035
10	Life assurance is a necessary evil in South African situation	3.16	1.131
11	People feel a need for Life Assurance	3.22	1.250
12	Current policies are outdated and inappropriate for modern times	3.30	1.074

Table 6.8 indicates the rank ordered items based on the factor means. The attitude that taking out life assurance is the only effective way to save families from poverty was rated the most important attribute. According to Fourie, Falkena and Kok (1999:119), insurance is the sharing of risks by many to safeguard one against unexpected misfortunes such as fire, accident, death, disability or living too long. Life assurance offices generally provide benefits to individuals, although some policies may be company owned. However, Howells and Bain (2000) argued that those who pose the highest risks are the ones most likely to take out life assurance policies. Hence, adverse selection holds that the people most likely to receive large insurance payoffs are the ones who will want to purchase life assurance policies the most. A total of 54% "agreed" that they seldom think of discontinuing paying their Life assurance policy at the first signs of financial hardship. For example, a person suffering from terminal disease would want to take out the biggest life and medical insurance policies possible, thereby exposing the insurance company to potentially high losses. The other items difficult of understand, Irresponsibility, Affordability, Service provision, transparency, information and advice and professional service relate to consumers in an effort to ensure clients make prudent insurance decisions. A total of 48% 'disagreed' that the current life policies are outdated and inappropriate for modern times and has been elaborated in the aspect of life assurance (Table 6.11).

A 5 point Likert scale was used to code frequency of responses. Since ordinal data are inappropriate for measuring means, correspondence analysis was used to rescale the data into interval form. For the total sample the means of the rescaled data in each statement were calculated and ranked in order of importance. A comparison of the overall scores for each of the attitude variables is represented in Table 6.8. The attitude variables scores as predictor variables were carried out in an attempt to establish a relationship between purchasing decisions and CSR reputation.

**Table 6.9. Mean ranking of responses to items on the attitude towards purchasing Life Assurance on the basis of CSR reputation**

<b>Rank</b>	<b>Item</b>	<b>Mean</b>	<b>Std. Deviation</b>
1	People do not purchase LA policies from a company with poor ethical record	1.86	0.990
2	People check to see if the ethical record of the company are acceptable	2.10	0.886
3	Company's ethical reputation influences evaluations and purchase intentions	2.12	1.118
4	Company's reputation for social responsibility influences buying decision	2.12	1.003
5	Company's involvement in the community has direct bearing on whether or not I buy its products	2.22	0.840
6	LA companies' reputation always sways my purchasing decision	2.26	0.803
7	Product quality is more important than company's social upliftment spending	2.70	1.015
8	Good financial performance but poor CSR performance does not stop me buying company's products	3.02	1.040

Table 6.9 gives the rank ordered items based on the factor means (5 representing "strongly disagree", 1 "strongly agree").

The study conducted confirms that people do not purchase life assurance policies from a company they regard as having a poor ethical record. According to Brown and Dacin (1997), advocate that negative corporate social responsibility associations can have a detrimental effect on overall product evaluations, whereas positive corporate social responsibility associations can enhance product evaluations and purchasing decisions. People agreed (68%) that they first check the ethical record of the company before buying the life assurance policies. Purchasing intention was rated as the third most important attribute.

Good financial performance of a life assurance company was rated the least important attribute, if the social responsibility performance of the company is poor. Forty two percent of respondents disagreed that a Life assurance company with a good financial performance but poor social responsibility performance does not stop them from buying its products. Marx, De Sward and Nortje (1991:91) argued that financial planning and performance are important because modern life offers far greater choices and people live longer and healthier lives. Hence, these lifestyle choices have to be funded, especially during retirement.

The technique enables statistical manipulation and valid statistical interpretations of inherently ordinal data converting it into interval data. For the total sample the means of the rescaled data in each statement were calculated and ranked in order of importance.

**Table 6.10. Mean ranking of responses to items on the important aspects of the Life Assurance Act**

Rank	Item	Mean	Std. Deviation
1	Requirement for specific corporate governance in life companies	1.78	0.790
2	Stringent conditions for the registration of financial advisors	1.78	0.910
3	Creation of an ombudsman to advise on consumer complaint	1.92	0.877
4	New regulations regarding FA discuss payments limitations	1.94	0.843
5	Requirement for stringent product development	2.00	0.808

Table 6.10 indicates the rank ordered items based on the factor means (5 representing "least important", 1 "most important"). The study conducted confirms that the requirement for specific corporate governance in life assurance companies was rated most important attribute. The stringent conditions for registration of Financial Advisors were rated as being the second most important factor.

The new regulations regarding the discussion of payment limitations about financial advisors were rated as being the fourth important factor with 76%. The literature suggests that instead of receiving commissions based of premiums paid by their clients, financial advisors could charge a fee to the clients for advisory and administration work, but rebate to the clients all commissions received from the insurance market (Ward, 1999:52).

The argument is that this pricing structure would ensure that the financial advisor was completely objective in his/her advice, rather than being tempted to recommend one particular insurance company, which paid a higher rate of brokerage commission.

Ward (1993) further suggests that the approach will enable the service provider to focus on those areas of activity where it adds most value to the customer, rather than providing an all embracing service, where some aspects may be of almost no added value.

The stringent conditions for the registration of financial advisors and the requirement for specific corporate governance regarding offerings of life assurance companies in the life assurance sector were rated the most important factors.

The financial service provider must comply with the prescribed requirements in order to be licensed by the Registrar of Financial Services Providers, acting under the auspices of the Financial Service Board (FSB, 2000:13, 3<sup>rd</sup> quarter). Rossouw (2001:11) further suggests that FAIS should protect consumers by creating an environment wherein financial services will be provided in a professional manner, that is: competently and ethically.

## **CHAPTER 7: DISCUSSION OF FINDINGS AND RECOMMENDATION**

### **7.1. Introduction**

The purpose of this chapter is to interpret and systematically explain the results that were discovered in the previous chapter. The questionnaire for this study was designed with five sections.

#### **7.1.1. Biographical data**

The biographical data showed that of the 50 respondents, the majority of respondents were Asian (62%). This may be attributed to the demographic composition of the University of Durban Westville that employs a higher percentage of Asian staff members. The males outnumbered the female respondents by a difference of 24%. The higher percentage was between the ages 25 – 34 years. This group comprised a total of 46% of the respondents. The income distribution of the sample indicated that 58% of respondents earned between R6 000 to R10 000 per month. This group also consisted of 38% single, 58% married and 4% divorced individuals.

#### **7.1.2. Factual aspects of LA policy ownership**

The study revealed that staff members were generally, policyholders, this group comprised of a total of 74% the respondents. The responses of 74% of people who own life assurance policies confirmed the demand for life assurance products. People are generally satisfied with premiums they are paying and the added value to their savings. Hence, Life Assurance products seem to be considered worthwhile for the majority with, 74% of the respondents perceiving added value on personal savings through long-term investment. Also 70% of the respondents denied bad experiences and problems with life assurance companies and agents.

### 7.1.3. Attitudes towards Life Assurance.

The study revealed that staff members were unsure about life assurance service provision. Yet when questioned on the service provision by financial advisors, a total of 44% of the respondents disagreed that the financial advisors display and provide a professional service to the clients. The majority of the respondents agreed that financial hardship could seldom influence payment for their life assurance policy. Thus, there is a strong indication that life assurance premiums are regarded as affordable. What is not clear is why a total of 32% of the respondents agreed that they seldom see the need to have a life assurance policy while a total of 48% disagreed regarding this statement. However, a total 76% of the respondents agreed that taking out life assurance is the only effective way of saving their family from poverty in the event of their death.

### 7.1.4. Attitudes towards purchasing Life Assurance on the basis of CSR reputation.

The study revealed that staff members had greater consideration for ethical reputation of Life Assurance companies as an influence on their evaluations and purchase intentions. This group also agreed that a life assurance company's reputation for social responsibility influences their decision in buying its life assurance policies. The study clearly indicates a relationship between a company's CSR record and the decision regarding purchasing its life assurance products. In short, the ethical reputation of the company has an impact on consumers' evaluations of life assurance products and companies.

The constant contact with clients regarding financial advisors can help towards communicating the company's CSR initiatives and underwriting ethical reputation of the company.

The life assurance industry should further endeavour to reconstruct the ethical reputation tarnished by maladministration, embezzlement and dishonesty, since consumers seem to regard this aspect as important in their decision to purchase particular life assurance products.



### 7.1.5. Importance of aspect of the Life Assurance Act

The study indicates that the new regulations are certainly needed for financial advisors on registration conditions and payment limitations. There is significance in this finding because it affirms the literature review on the short-term and long-term ombudsman Act in chapter four. The majority (74%) found the Ombudsman as useful resource for advice about customer complaints.

## 7.2. Conclusion

In conclusion, it would appear from the findings that, the majority of the respondents own life assurance policies. The policyholders are satisfied with premiums they are paying, which are perceived as adding value to personal savings. Most deny bad experiences and problems with life assurance companies and acknowledge the professional behaviour shown by the financial advisors.

Financial hardship can influence their decision to continue with payments for a life assurance policy. However, they indicate that the taking out of a life assurance policy is the only effective way of saving their families from poverty in the event of their death.

The relationship between CSR record and the decision taken towards purchasing a life assurance product from a life assurance company play a vital role in sales. Therefore, financial advisors should frequently communicate the companies' CSR initiatives and underwrite the ethical reputation of the company.

Most respondents agreed that the creation of an ombudsman to advise on customer complaints is important.

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## **Appendix 2**

# **OMBUDSMAN FOR LONG-TERM INSURANCE**

## **RULES**

These Rules, effective from 1 January 1998, regulate the relationship between the members of the Life Assurance Industry (the Industry) who subscribe thereto and the Ombudsmen for Long-Term Insurance (the Ombudsman).

### **1. Mission**

The mission of the Ombudsman for Long-term insurance is to mediate in disputes between the subscribing members of the industry and policyholders. In doing so the Ombudsman will seek to ensure that:

- 1.1.1. He acts independently and objectively in advising on any complaint received and takes no instructions from anybody regarding the exercise of his authority.
- 1.1.2. The subscribing members of the Industry Act with fairness and with due regard to both the letter and the spirit of the contract between the parties and render an efficient service to those with whom they contract;
- 1.2. He keeps the scale in balance between the rights of the policyholders on the one hand and the rights of the subscribing members on the other; and
- 1.3. Due weight is accorded to consideration of equity.

### **2. Jurisdiction**

- 2.1.1. Subject to the provisions of paragraph 2.4 below, the Ombudsman shall receive and consider complaints from or on behalf of any policyholder regarding the marketing, coming into existence and execution of life assurance contracts marketed or effected in the Republic of South Africa. Such complaints should be submitted in writing. In circumstances deemed

appropriate the Ombudsman may receive complaints otherwise than in writing.

2.1.2. The Ombudsman shall only consider a complaint where a subscribing member is involved; i.e. such member has indicated that it considers itself bound by these rules.

2.2. The Ombudsman shall not consider a complaint, which to his knowledge is being considered by legal practitioners with a view to the institution of legal proceedings or has been the subject of such proceedings.

2.3. The complaint must not concern:

2.3.1.1. The underwriting of the policy; or

2.3.1.2. The actuarial standards – tables – and principles which the member applies to its long-term insurance business; or

2.3.2. The method of calculation of surrender values and paid-up policy values of the policy in question; or

2.3.3. The bonus system and bonus rate applicable to the policy in question; or

2.3.4. In the case of linked contracts the performance of the portfolio to which the contract is linked.

Provided that in circumstances where it appears that the financial benefits accruing to a complaining policyholder in terms of the above are so deficient as to raise a Prima facie presumption of fraud or negligence on the part of the subscribing member or where it appears that misrepresentations regarding the matters excluded above may have occurred, the Ombudsman shall have jurisdiction to investigate and advice upon such complaint.

### **3. Procedure**

3.1. On receipt of a complaint as aforesaid the Ombudsman will proceed to investigate such complaint, solicit such information or expert advice as is deemed necessary for a fair mediation and will furnish the parties with his written advice. Such advice may include a recommendation that a claim



should be paid in full or in part, or the Ombudsman may advise that such other award or form of compensation as he deems fair and equitable be made.

- 3.2. The advice given in terms of paragraph 3.1 may in the discretion of the Ombudsman include a recommendation to compensate a policyholder for inconvenience, distress or other limited financial loss sustained as a result of an error, omission or maladministration on the part of the subscribing member. Where such recommendation is made in order to compensate the policyholder for inconvenience or distress, the amount recommended shall not exceed the sum of R15 000. The maximum amount aforesaid shall be adjusted from time to time as determined by the subscribing members of the industry in consultation with the Ombudsman.
- 3.3. In addition to any other advice or recommendation the Ombudsman may furnish or make, he may in his discretion advise a subscribing member to pay interest at a rate he deems fair and equitable and in accordance with criteria he considers appropriate.
- 3.4. The Ombudsman shall seek to resolve complaints primarily by conciliation or mediation. In the event of such processes failing, the subscribing members agree to accept the Ombudsman's advice and to adhere to any recommendation, directive or award he may make.

Provided however:

- 3.4.1. that where the recommendation, directive or award exceeds the amount of R250 00, or
- 3.4.2. the issue of dispute is:
  - 3.4.2.1. of considerable public or industry interest, or
  - 3.4.2.2. so complex or the case is so evenly balanced as to merit definitive independent re-evaluation:

The Ombudsman may after consultation with the relevant subscribing member of the industry refer the matter to a panel of adjudicators to be established from time to time by the Ombudsman in consultation with the industry. The panel's decision shall be final and binding on the relevant subscribing member.

3.5. Should a complainant challenge the advice of the Ombudsmen and the Ombudsman is of the opinion that such complainant has a reasonable prospect of success in a further proceeding, and the complainant agrees to be bound by the advice, the Ombudsman may at the complainant's request and after consultation with the relevant subscribing member of the industry, refer such a matter to the panel of adjudicators to be established in accordance with rule 3.4 above for its advice. Such advice shall be final binding on both parties.

3.6. The Ombudsman shall maintain confidentiality in respect of any matter upon which his advice is sought. Provided however, that where he is of the view that the public interest requires the publication of any aspect of the matter, he may do so in such form and in such manner as he deems fit. Before doing so, however, he shall afford the parties 21 days in which to show cause why publication should not take place at all or in a form or manner different to that proposed by the Ombudsman. After the expiry of such period and after due consideration of any submissions made, the Ombudsman may determine whether such publication is appropriate at all, in the form originally proposed or such form as he deems fit and proper.

#### **4. Report**

The Ombudsman shall report publicly within the first quarter of each year on his activities during the previous year.

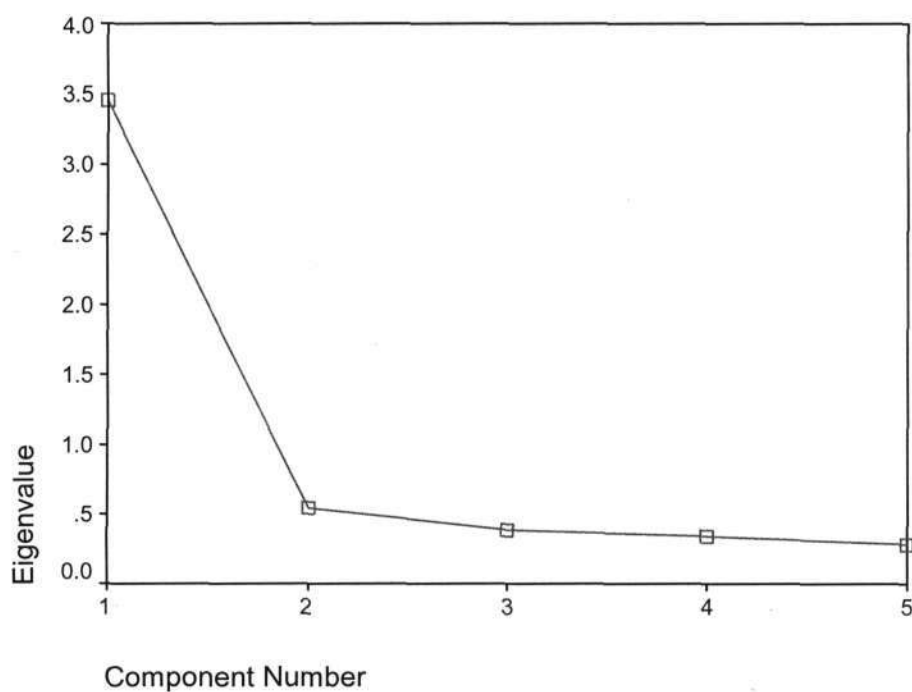
## Appendix 3

### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.866
Bartlett's Test of Sphericity	Approx. Chi-Square	125.059
	df	10
	Sig.	.000

### Test for suitability of Data

Scree Plot

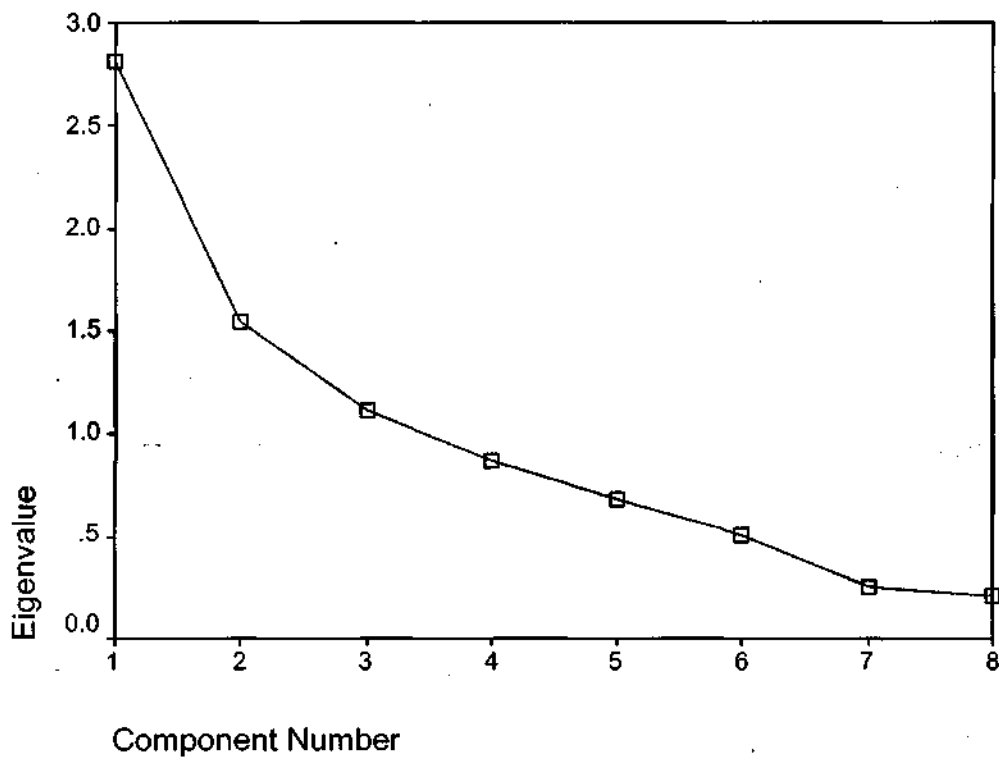


### 6.3.2. Factors describing attitudes towards purchasing Life Assurance on the basis of CSR reputation.

#### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.577
Bartlett's Test of Sphericity	Approx. Chi-Square	115.688
	df	28
	Sig.	.000

Scree Plot



### 6.3.3. Factors analysis on Attitudes towards Life Assurance

#### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.629
Bartlett's Test of Sphericity	Approx. Chi-Square	109.488
	df	66
	Sig.	.001

Scree Plot

